HOUSE OF COMMONS SESSION 2000–01

SCIENCE AND TECHNOLOGY COMMITTEE

Second Report

CORUS PLC – RESEARCH AND DEVELOPMENT

Report, Proceedings of the Committee and Minutes of Evidence

Ordered by The House of Commons *to be printed*
10 January 2001

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS
LONDON – THE STATIONERY OFFICE LIMITED

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LIST OF WITNESSES

Wednesday 1 November 2000

CORUS PLC

Monday 13 November 2000

CORUS PLC

Wednesday 22 November 2000

STEEL AND INDUSTRIAL MANAGERS ASSOCIATION

LIST OF MEMORANDA INCLUDED IN THE MINUTES OF EVIDENCE

LIST OF RECOMMENDATIONS AND CONCLUSIONS

1. **We would urge Corus, in line with all major companies, to give serious consideration to the benefits of having research, technology and development at the heart of its strategic decision-making and management structures. (Paragraph 7)**

2. **The Committee views the reduction in research and development personnel as extremely regrettable and indicative of a short-term attitude. Research and development represent vital areas of expenditure for all companies, as these activities are essential in ensuring a company's long-term success and providing innovative solutions to business problems. (Paragraph 8)**

3. **While the Committee strongly encourages both international and industrial-academic co-operation in R&D projects, we hope that Corus will not completely abandon its own speculative research, and basic research in particular. Without investment in basic research Corus cannot be an intelligent customer for the work it sponsors. We also regret that these R&D activities appear to be transferring abroad. (Paragraph 9)**

4. **We urge Corus, and all companies, to consider the long-term damage which the loss of experienced staff can have on their ability to carry out effective research and development. We also deeply regret the job losses announced in research and development, and the loss of expertise they represent for R&D in the UK. (Paragraph 10)**

5. **We consider that Corus may have seriously under-estimated the number of R&D staff who will leave the company as a result of the restructuring, and urge the company to do everything possible to retain those with key skills. (Paragraph 11)**

6. **The Committee deeply regrets the human impact of these job losses upon the employees and their communities. It is also extremely concerned about their impact upon Corus' ability to attract new technologists into the company, and upon the appeal of careers in R&D generally. (Paragraph 12)**

7. **We sincerely hope that Corus will ensure that the creation of a new technology centre will not divorce R&D from production. (Paragraph 13)**

8. **The Committee notes with grave concern the imbalance of job losses between the UK and Netherlands, and what appears to be a downgrading of Corus' commitment to R&D in this country. (Paragraph 14)**

9. **The Government must examine the underlying causes of the job losses in Corus R&D and act promptly upon their findings. (Paragraph 15)**

10. **We are concerned that Corus is taking long-term decisions on the basis of short-term exchange rate considerations. (Paragraph 15)**

11. **We remain deeply concerned about the current state of physical sciences teaching within UK schools, which, if unreformed, will inevitably damage industry in the long-term. (Paragraph 16)**

12. **While job losses in research and development are always to be regretted, it was apparent from both Corus' and SIMA's evidence that some restructuring of British Steel, and its research and development facilities, would almost inevitably have taken place with resultant redundancies, even had the company not merged with Hoogovens. It is clear, however, that research and development at Corus has suffered deeply over the last year and will continue to do so until after the restructuring is complete. It is disappointing to note that the UK side of the business was required to bear more than its proportionate share of the cutbacks.**

If the company is to survive its current difficulties successfully, R&D must be given a higher priority. We would urge Corus to consider carefully its resource allocation for R&D and to do everything possible to maintain its commitment to the UK in this field. The opportunity to create a centre of excellence for steel R&D in the UK with modern, purpose-built facilities at its new Sheffield Technology Centre must not be wasted. We hope that the new centre will truly be a state of the art facility, attracting new investment and new science, engineering and technology recruits into steel R&D. (Paragraph 17)

13. **The Government must examine the fundamental reasons for Corus shifting the emphasis of its research and development activities to the Netherlands. The fiscal and economic problems identified by Corus (the currency issue, the tax regime and changes in the energy market), which clearly affect the other companies in this sector, need be addressed within the Government's policies. It is also imperative that the Government tackle the severe weaknesses identified by Corus in science teaching in the UK, if the country's technological future is to be guaranteed. (Paragraph 18)**

SECOND REPORT

The Science and Technology Committee has agreed to the following Report:—

CORUS PLC – RESEARCH AND DEVELOPMENT

Introduction

1. Corus plc was formed in October 1999 as a result of the merger between British Steel plc and the Dutch company Koninklijke Hoogovens NV. This created the world's third largest steel company,[1] producing over twenty-one million metric tonnes of crude steel every year and employing approximately 66,000 people worldwide.[2] Since its inception, however, Corus has faced severe difficulties, announcing a net loss of £249 million in September 2000 after its first year of trading.[3] It has also made a series of redundancies during the year, amounting to a total of around 4,500 in the UK. It had been expected that some jobs would be lost due to the merged companies' overlap in certain operational areas, especially the flat-rolled carbon steel business, but the scale of the redundancies was unanticipated.[4]

2. As part of its restructuring, the company announced in June 2000 that it intended to close its three existing UK technology centres in Port Talbot, Rotherham and Teesside, where the bulk of British Steel's research and development (R&D) had been carried out. They would be replaced by one new centre (later confirmed as to be in the Sheffield area[5]), which would form the British half of the R&D facilities, with the Dutch component based at the existing IJmuiden Technology Centre in the Netherlands. The job losses in R&D amounted to approximately 250 in the UK and 30 in the Netherlands.[6]

3. The Committee's concern in this matter centres on the effect that the merger in general, and this restructuring in particular, will have on the company's research and development capabilities and thus on the wider economy. Any changes would have a profound effect outside the company owing to the importance of Corus for steel R&D in the United Kingdom. British Steel had dominated the industry in the UK, accounting for almost 70% of those employed in the iron and steel industry in 1999.[7] It was by far the largest investor in steel and aluminium R&D, spending around £50m per annum, and accounted for more than 90% of all steel R&D carried out in the UK.[8] Such sectoral dominance by a single company makes any change in Corus' R&D an issue for considerable concern.

4. During the inquiry, an oral evidence session was held with the then Joint Chief Executives of Corus plc, Mr John Bryant and Mr Fokko van Duyne, and Dr Jeff Edington, the Executive Director of Technology. The Committee notes that, since their oral evidence session, Mr Bryant and Mr van Duyne have resigned.[9] Representatives of the Steel and Industrial Managers Association (SIMA) also gave oral evidence, and three written memoranda were received. We would like to thank our specialist advisers, Professor Derek Burke, former Vice-Chancellor of the University of East Anglia, and Professor Michael Elves, former Director of the Office of Scientific and Educational Affairs, Glaxo Wellcome plc, for their assistance.

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[1] This was at the time of the merger; it is now the fourth largest. Q. 7.
[2] Evidence, p. 1, paragraph 1.
[3] Compared with a net profit of £226 million in 1998 and a net loss of £81 million in 1999 for British Steel. British Steel plc, *British Steel Annual Report 1998/1999.*
[4] Qq. 4 & 23.
[5] Q. 33.
[6] Corus press release, 16th June 2000.
[7] Office of National Statistics, *Labour Force Survey*; and British Steel, *British Steel Annual Report 1998/99.*
[8] Evidence, p. 2, paragraph 8; and DTI, *The UK R&D Scoreboard 1999*, p. 19.
[9] Corus press notice, 5th December 2000.

Importance of research and development at Corus plc

5. In its first memorandum to the Committee, Corus stated that, "R&D is very important to Corus"[10] and this was reiterated in the company's oral evidence.[11] Corus' current annual expenditure on R&D, though, amounts to only 0.9% of revenue and is well below the 1.5% which Corus stated that metal industries companies typically spend, and lower even than Hoogoven's proportional spend prior to the merger, according to SIMA.[12] The table below illustrates British Steel/Corus' expenditure on R&D (as a percentage of sales) compared to international competitors. The Committee notes with interest that no US companies are included in the top five of the Scoreboard.[13]

Research and Development Investment in the Steel & Metals Industry
International Comparisons [14]

COMPANY	R&D	
	Total spend (£ ,000)	**as % of sales**
Furukawa Electric (Japan)	137, 065	3.1%
Sumitomo Metal (Japan)	132, 392	1.7%
NKK (Japan)	130, 912	1.2%
Mitsubishi Metals (Japan)	108, 083	1.8%
Usinor (France)	96, 393	1.4%
British Steel, now Corus, (UK)[15]	44,000	0.7%

6. Corus stated that steel R&D is fundamentally less expensive than that needed in other industries, pharmaceuticals for example, owing to its dependence on the physical sciences, which are more theoretical and less experimental in nature.[16] Others would argue, though, that there should be scope for experimental research both in devising new materials and also in the development of better processes. Corus also seemed unwilling not only to consider increasing R&D expenditure but even to guarantee the current level of spend.[17] Such a low level of expenditure on R&D, as 0.9% of revenue, hardly seems compatible with Corus' claim to regard it as an important part of the business, and we urge it to reconsider this allocation of resources.

7. The Committee also heard that Dr Edington, who retired at the end of last year as the Executive Director of Technology, is not to be replaced by a director of similar seniority. Although prior to the merger he had been a member of British Steel's main board, he was not included on the Board of the merged company and neither will his successor as head of R&D.[18] Dr Edington assured us that he would not be leaving if he felt that it represented a downgrading of research and development, and that in future the head of R&D would report directly to one of the Chief Executives.[19] In our view it is a retrograde step to remove R&D from the boardroom. **We would**

[10] Evidence, p. 3, paragraph 19.
[11] Q. 15.
[12] Evidence, p. 3, paragraph 20; and Q. 57.
[13] The US company which spends most on steel R&D is the Aluminium Company of America, with a spend of £79,499,000 in 1999. This would make it seventh in the world. Source: DTI.
[14] DTI, *The R&D Scoreboard Online Database*, Steel and Metals sector.
http://195.92.19.208/finance/rndscore_2000/introfr.html
[15] British Steel/Corus is included here for purposes of comparison.
[16] Q. 5.
[17] Q. 6.
[18] Evidence, p. 14, paragraph 3; and Qq. 10 and 11.
[19] Qq. 11-14.

urge Corus, in line with all major companies, to give serious consideration to the benefits of having research, technology and development at the heart of its strategic decision-making and management structures.

8. Most significantly, Corus' commitment to R&D will undoubtedly be seriously affected by the large number of redundancies it has announced, reducing the number of scientific, engineering and technological personnel from 1,280 to 900 in the UK and the Netherlands.[20] Although we appreciate the severe difficulties Corus is experiencing at present, **the Committee views the reduction in research and development personnel as extremely regrettable and indicative of a short-term attitude. Research and development represent vital areas of expenditure for all companies, as these activities are essential in ensuring a company's long-term success and providing innovative solutions to business problems.**

Quality of research and development

9. In its evidence to the Committee, Corus assured us that the quality of its research would not suffer as a result of the merger, and would in fact become more effectively customer-orientated, rather than simply process-led.[21] SIMA also expressed its hopes to the Committee that merging with Hoogovens should be beneficial in achieving a more long-term approach to R&D and to 'blue skies' research in particular.[22] We were disappointed to learn, however, that much of the 'blue skies' research will apparently be done by a Benelux company, CRM, and that Corus will engage in less of this research itself. In relation to 'blue skies' research, Dr Edington told us that "the key thing for us is to monitor what is going on, to sponsor research in various universities as a means of doing that, but it is an integration activity now, not a steel research activity".[23] **While the Committee strongly encourages both international and industrial-academic co-operation in R&D projects, we hope that Corus will not completely abandon its own speculative research, and basic research in particular. Without investment in basic research Corus cannot be an intelligent customer for the work it sponsors. We also regret that these R&D activities appear to be transferring abroad.**

10. One of the most important factors in determining the quality of any company's research and development is the calibre of the staff, and the large number of redundancies at Corus' three technology centres is a matter of great concern. Corus assured the Committee that the cuts would not have a significant effect on its R&D capabilities and that, in considering the redundancies to be made, it had not used age as the sole criterion but was trying to combine the skills base needed now and that needed in the future.[24] SIMA on the other hand, told us that many personnel were unable or unwilling to move and that it would be mainly the senior, more experienced staff who would be lost to the industry.[25] We recognise that where redundancies have to be made it is perhaps inevitable that there will be a disproportionate loss of more senior staff. **We urge Corus, and all companies, to consider the long-term damage which the loss of experienced staff can have on their ability to carry out effective research and development. We also deeply regret the job losses announced in research and development, and the loss of expertise they represent for R&D in the UK.**

11. Poor morale will inevitably have a deleterious impact upon the quality of researchers' work. It is only too clear that most staff at the three technology centres feel extremely distressed by the restructuring and the uncertainty it has created in their lives. As one witness told us, "morale is desperately low at the moment. There is a feeling of not being wanted".[26] If this is the case, Corus may have been over-optimistic in its estimates of the number of people who would be willing or able to transfer. Mr Bryant's statement that some employees "are in a position where they are not

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[20] Corus press notice, 16 June 2000.
[21] Q. 5.
[22] Evidence, p. 14, paragraph 3.
[23] Q. 28.
[24] Q. 24.
[25] Evidence, pp. 14-15, paragraphs 5-6; and Q. 56.
[26] Q. 78.

able to move, or they do not have the ambition to move"[27] suggests a lack of understanding. **We consider that Corus may have seriously under-estimated the number of R&D staff who will leave the company as a result of the restructuring, and urge the company to do everything possible to retain those with key skills.**

12. There is also a strong feeling among the British staff that they have not been properly consulted about the redundancy process, and a perception that the Dutch staff have been treated with greater consideration.[28] Indeed, SIMA informed us that not only did the Dutch personnel receive longer and more professional notice of the restructuring but that any personnel made redundant from IJmuiden Technology Centre were to be absorbed within the site.[29] **The Committee deeply regrets the human impact of these job losses upon the employees and their communities. It is also extremely concerned about their impact upon Corus' ability to attract new technologists into the company, and upon the appeal of careers in R&D generally.**

The new technology centre

13. The three existing technology centres in South Wales, Teesside and Rotherham will close within the coming year and will be replaced by a new UK Technology Centre near Sheffield, due to open on 1st January 2002. SIMA expressed its incomprehension of this apparent reversal of British Steel's former policy of concentrating technology within the business, close to its prime customer: the strip metal plants.[30] It perceives a danger in creating an R&D facility separate from the rest of the business and contrasts this to the location of the IJmuiden Technology Centre within a production plant.[31] Mr Bryant told us that the high administrative costs of having more than one R&D Centre and the increasing use of Dutch technology made it impossible to sustain a technology centre at each production plant.[32] We find this explanation—a reversal of previous policy—unconvincing. **We sincerely hope that Corus will ensure that the creation of a new technology centre will not divorce R&D from production.**

The UK as a base for research and development

14. In Corus' restructuring of its R&D facilities there has been a significant imbalance in the job losses between the British and Dutch halves of the company. The closure of the three technology centres in the UK will result in a decrease in 43% of Corus' British R&D staff, compared to only 6% for the Dutch part of the business.[33] This represents a very significant loss in terms of skilled technologists for the UK economy and skills base. **The Committee notes with grave concern the imbalance of job losses between the UK and Netherlands, and what appears to be a downgrading of Corus' commitment to R&D in this country.**

15. Corus provided the Committee with various reasons for the unequal division of job losses between the British and Dutch sections of the company, including the tax regime, changes in the energy market and the strength of the pound contrasted to the Euro.[34] SIMA implied that differences in employment legislation between the UK and the Netherlands were also significant.[35] Such issues are beyond the scope of this inquiry, but **the Government must examine the underlying causes of the job losses in Corus R&D and act promptly upon their findings. We are concerned that Corus is taking long-term decisions on the basis of short-term exchange rate considerations.** The Trade and Industry Select Committee is currently undertaking an inquiry into the UK Steel Industry as a whole, and examining the difficulties it is currently facing. We await its Report with great interest.

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[27] Q. 19.
[28] Q. 63 and 86.
[29] Q. 94.
[30] Q. 76.
[31] Q. 75.
[32] Q. 17.
[33] Corus press release, 16th June 2000.
[34] Qq. 16 & 43; and Evidence, p. 3.
[35] Qq. 63-65.

16. One issue raised by Corus, which was of especial concern to the Committee, was the quality of science teaching, particularly physics, in the UK. Mr Bryant argued that the quality of physics students leaving schools and universities was declining noticeably and that Corus had long-term apprehensions regarding the scientific qualifications of future school leavers and the effect it would have on Corus' recruitment.[36] This reflects the view expressed to us by other industrialists and is not new to the Committee. We have commented in detail on this in earlier reports.[37] **We remain deeply concerned about the current state of physical sciences teaching within UK schools, which, if unreformed, will inevitably damage industry in the long-term.** We are pleased to note that the Science and Technology Committee of the House of Lords is currently holding an inquiry into Science and Schools.

Conclusion

17. While job losses in research and development are always to be regretted, it was apparent from both Corus' and SIMA's evidence that some restructuring of British Steel, and its research and development facilities, would almost inevitably have taken place with resultant redundancies, even had the company not merged with Hoogovens.[38] It is clear, however, that research and development at Corus has suffered deeply over the last year and will continue to do so until after the restructuring is complete. It is disappointing to note that the UK side of the business was required to bear more than its proportionate share of the cutbacks. If the company is to survive its current difficulties successfully, R&D must be given a higher priority. We would urge Corus to consider carefully its resource allocation for R&D and to do everything possible to maintain its commitment to the UK in this field. The opportunity to create a centre of excellence for steel R&D in the UK with modern, purpose-built facilities at its new Sheffield Technology Centre must not be wasted. We hope that the new centre will truly be a state of the art facility, attracting new investment and new science, engineering and technology recruits into steel R&D.

18. The Government must examine the fundamental reasons for Corus shifting the emphasis of its research and development activities to the Netherlands. The fiscal and economic problems identified by Corus (the currency issue, the tax regime and changes in the energy market), which clearly affect the other companies in this sector, need be addressed within the Government's policies. It is also imperative that the Government tackle the severe weaknesses identified by Corus in science teaching in the UK, if the country's technological future is to be guaranteed.

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[36] Q. 40.

[37] *Engineering and Physical Sciences Based Innovation*, paragraphs 88-89, HC195-1; and *Glaxo Wellcome and SmithKline Beecham*, paragraphs 8-9, HC 207-1.

[38] Q. 36; and Evidence p. 14, paragraph 2.

PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT

WEDNESDAY 10 JANUARY 2001

Members present:

Dr Michael Clark, in the Chair

Dr Ian Gibson
Dr Brian Iddon
Mr Robert Jackson
Dr Lynne Jones
Dr Ashok Kumar
Dr Desmond Turner
Dr Alan W Williams

The Committee deliberated.

Draft Report (Corus plc—Research and Development), proposed by the Chairman, brought up and read the first time.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 18 read and agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

[Adjourned till Wednesday 17 January at a quarter to Four o'clock.

LIST OF REPORTS

SCIENCE AND TECHNOLOGY COMMITTEE REPORTS IN THE CURRENT PARLIAMENT

Session 1997–98

First Report: The Implications of the Dearing Report for the Structure and Funding of University Research (HC 303)

Second Report: The Year 2000—Computer Compliance (HC 342)

Third Report: Glaxo Wellcome and SmithKline Beecham: The Merger Proposals (HC 627)

Fourth Report: The Cloning of Animals from Adult Cells (HC 1039)

Fifth Report: British Biotech (HC 888)

Sixth Report: Science and the Comprehensive Spending Review (HC 1040)

First Special Report: The Government's Response to the Committee's Fourth Report, Session 1996–97, The Research Council System: Issues for the Future (HC 302)

Second Special Report: The Government's Response to the Committee's Third Report, Session 1996–97, The Natural Environment Research Council and Research into Climate Change (HC 306)

Third Special Report: The Government's Response to the Committee's First Report, Session 1997–98, The Implications of the Dearing Report for the Structure and Funding of University Research (HC 799)

Fourth Special Report: The Government's Response to the Committee's Fifth Report, Session 1997–98, British Biotech (HC 1185)

Session 1998–99

First Report: The Scientific Advisory System: Genetically Modified Foods (HC 286)

Second Report: The National Endowment for Science, Technology and the Arts (HC 472)

Third Report: The Scientific Advisory System: Mobile Phones and Health (HC 489)

Fourth Report: The Regulation of the Biotechnology Industry (HC 535)

First Special Report: The Government's Response to the Committee's Sixth Report, Session 1997–98, Science and the Comprehensive Spending Review (HC 234)

Second Special Report: The Government's Response to the Committee's Second Report, The National Endowment for Science, Technology and the Arts (HC 822)

Session 1999–2000

First Report: The Year 2000—Computer Compliance: Follow-Up (HC 37)

Second Report: Engineering and Physical Sciences Based Innovation (HC 195-I)

Third Report: Scientific Advisory System: Diabetes and Driving Licences (HC 206-I)

Fourth Report: Glaxo Wellcome and SmithKline Beecham (HC 207-I)

Fifth Report: Government Expenditure on Research and Development: The Forward Look (HC 196-I)

Sixth Report: Cancer Research—A Fresh Look (HC 332-I)

Seventh Report: The Government's Expenditure on Research and Development: The Forward Look—The Government's Reply (HC 723)

First Special Report: Government Response to the Committee's Second Report, Engineering and Physical Sciences Based Innovation (HC 451)

Second Special Report: Joint Working with the Lords Science and Technology Committee (HC 980)

Third Special Report: Government Response to the Seventh Report of the Science and Technology Committee on the Government's Expenditure on Research and Development: The Forward Look—The Government's Reply (HC 981)

Session 2000-2001

First Report: EQUAL (Extend Quality Life) (HC 43)

First Special Report: The Work of the Science and Technology Committee 1997–2000 (HC 44)

MINUTES OF EVIDENCE

TAKEN BEFORE THE SCIENCE AND TECHNOLOGY COMMITTEE

WEDNESDAY 1 NOVEMBER 2000

Members present:

Dr Ian Gibson
Dr Brian Iddon
Mr Robert Jackson
Dr Lynne Jones
Dr Ashok Kumar
Dr Desmond Turner
Dr Alan W Williams

In the absence of the Chairman, Dr Lynne Jones was called to the Chair.

Memorandum submitted by Corus plc

A. The Corus Group plc.

1. Corus plc is the merger between British Steel plc and Koninklijke Hoogovens NV, and came into existence on 6 October 1999. The company has an annual turnover of about £10 billion, and employs some 66,000 people worldwide. Corus is the second largest steel producer in Europe, the fourth largest in the world (production 21.3MT) and is also the fifth largest aluminium company in the world.

2. The new company's strategy is to create value by providing innovative metal application solutions to attractive market segments where leading positions can be achieved.

B. What Were the Reasons for the Merger?

3. Corus was created as a result of three main drivers.

(a) Changes in the international market.

The globalisation and consolidation of the world steel market is causing key sectors to become dominated by major international customers who seek suppliers with critical mass capable of developing joint materials applications. These developments have been accompanied by the progressive consolidation and increasing competitiveness of the European steel industry.

(b) Strategic considerations of the partners.

British Steel sought to diversify away from dependence on over 90 per cent of its manufacturing base being in the UK; and also to reduce exposure to the strong value of the £ sterling. Hoogovens sought to acquire critical mass in the global metals market.

(c) Improved customer service.

The combined group seeks a wider international approach in order to respond more fully to the needs of customers wherever they might be in the world.

4. Specifically, Corus Group plc intends:

— to offer customers a multi-metals approach to its market. This means becoming the only company that provides fully engineered components and sub-assemblies made of several metals, to optimise performance for consumers. This will be done through Corus' combined steel and aluminium expertise, and a strong product portfolio;

— to be active in all major markets where its key customers are present;

— to establish a strengthened international distribution and service centre network;

— to achieve cost efficiencies through synergies in areas of major overlap (elimination of duplication, more effective utilisation of existing capacity, wider options for routing supplies to customers, exchange of best technological know-how and competencies).

C. What Was the Importance of R&D to the Merger

5. The importance of high level R&D to the new Company was emphasised from the outset (see attached brochure page 5). R& D is the basis for increasing market shares by providing world-class service and support to customers, and developing new products and innovative multimetal solutions to satisfy increasingly sophisticated customer needs. R&D also underpins quality improvement and cost reduction by enhanced

efficiency in its manufacturing processes. R&D thus helps to give the new company added competitive advantage, thereby raising revenues and margins. It also helps create opportunities to grow market share which would not have been available to the former companies independently.

D. What Were Each Company's R&D Activities Before the Merger?

(a) *British Steel*

6. All Research and Development activities at British Steel were carried out in the UK at three locations.

(i) Teesside Technology Centre, Grangetown—concentrating on process research (eg improved efficiency of, and new ways of operating, Blast Furnaces, improved Steelmaking processes and steel quality).

(ii) Swinden Technology Centre, Rotherham—focusing on product research and development, and environmental research (eg ultra high strength steels, construction technology, improved stainless steel, improved operating technology to reduce emissions, life cycle analysis).

(iii) Welsh Technology Centre, Port Talbot—focusing on product and applications development of Strip Products (eg improved galvanised products for the car industry, new metal forming processes such as hydroforming, longer life coatings, improved packaging systems such as ultra-light beverage cans).

7. In addition to the above, design and engineering work for the automotive market was also carried out by the Automotive Engineering Centre in Coventry.

8. During the last three full financial years prior to the merger, R&D expenditure by British Steel was as follows:

£m	*1996–97*	*1997–98*	*1998–99*
Gross expenditure	£49	£52	£49

9. At the end of 1999 the total number of employees of the three above Technology Centres was approximately 750.

(b) *Koninklijke Hoogovens*

10. Almost all R&D at Hoogovens was carried out by the central R&D department located at Ijmuiden in the Netherlands. It covered essentially the same general topics listed in para 6.

11. During the last three financial years prior to the merger, R&D expenditure by Hoogovens was as follows:

£m	*1996–97*	*1997–98*	*1998–99*
Gross expenditure	£31	£34	£36

At the end of 1999 the total number of employees in R&D at Hoogovens was approximately 500.

E. What are the Consequences of the Merger for R&D?

(a) *Organisation*

12. Since 1 January 2000, the R&D activities of Corus Group plc have been grouped into Corus Research, Development and Technology, which operates as an integrated organisation comprising the three technology centres of British Steel and the former Ijmuiden technology centre. The activity reports through a Group Director of Research, Development and Technology (RD&T) to the Executive Director, Technology.

13. The basic principle of the new organisation is that Corus RD&T will operate as one entity, with researchers working together on cross-site Research & Development projects, though based on different locations.

(b) *R&D strategy*

14. The Boston Consulting Group have advised that, in mergers of companies in mature industries, a 20–40 per cent overlap in R&D activity is very typical. This is because both companies are inevitably addressing broadly the same manufacturing and market issues.

15. The Corus merger has been no exception to this general rule, and has a 20–25 per cent overlap in the R&D activities of British Steel and Hoogovens. The challenge now is to retain the best of both companies' programmes, to improve the quality of the work and to raise radically the level of contribution which R&D makes to the Company's competitiveness, revenues and profitability. The change will emphasise innovative engineered solutions developed in deep partnership with customers, making engineering and design the common language between Corus and its customers. This will be combined with innovative multi-metals technology packages.

16. This R&D approach fully reflects the strategic drives of the company as set out in paragraph 2.

(c) *R&D Resource*

17. A radical review of resource and expertise is under way across the new Company in order to match the Group's R&D activities to the business realities. At the same time we will:

- enhance the best of the R&D activities of the former independent companies;
- eliminate duplication in the previously independent programmes;
- identify new R&D activities directly aimed at increasing market share, revenue and margins;
- bring in new technologies from outside to complement Corus' own technologies;
- build and strengthen lasting relationships with our customers.

F. What is Corus' View of the UK as a Research Base?

18. From the Corus point of view, the UK is a good location for R&D. An important consideration here is the presence of several universities (eg Oxford, Cambridge, Imperial College, Birmingham, Sheffield and Swansea) with top level programmes in engineering, metallurgy, physics and chemistry which qualify them as good partners in co-operative research, and with qualified and capable researchers. Nevertheless, it is a major concern of Corus that this scientific excellence is being eroded by the progressive decline in the UK of high quality students entering science and engineering disciplines.

G. What is the Importance of R&D to Corus?

19. R&D is very important to Corus. As described above in para 4, it is expected to provide high quality services to the Corus Business Units by driving incremental innovation in technology for existing products and processes, both to maintain and improve competitive advantage and to protect or increase market share. However, in common with other intelligently managed companies in mature industries, Corus will look outside to acquire those radically new technologies that are needed to provide the new products and processes required to increase fundamentally market share or move into new markets. This is the most effective method of dealing with the inherently high risk process of radical innovation.

20. Typically in the metal industries companies spend between 1-1.5 per cent of revenues on R&D depending on the technical sophistication of the customers they serve and the market in which they operate.

21. In the case of Corus, the current year's R&D expenditure will amount to approx. 0.9 per cent of revenues.

5 April 2000

Supplementary memorandum submitted by Corus plc

UPDATE OF INFORMATION SINCE THE CORUS SUBMISSION DATED 4 APRIL 2000

In the time that has passed since we submitted our evidence last April, a number of things have happened that have had an impact on Corus both generally and with particular regard to our R&D. In this memorandum, we will concentrate on only three:

In our evidence, we identified some areas of overlap in the new company's R&D. As a result of a thorough review of our R&D activities, in June we announced that we would reorganise our R&D, concentrating on only two sites, a new site located in the UK and the existing technology centre in the Netherlands. These will be of approximately equal size. The UK technology centre will be a new purpose-built site, custom designed to encourage innovation and which will represent a commitment to the future. At the same time, we proposed

to concentrate certain activities, which are presently split, so that they are carried out on only one site location. This will require a two-way shift of staff between the UK and Netherlands. Whilst we acknowledge that this will be disruptive for the staff concerned, this will enable Corus to do better research and to do so with a lower overhead. We are currently engaged in discussions about the final location for our single UK technology centre, with the aim of completing the process by the end of next year. This is a very ambitious timetable, but we are not yet in a position to say anything further in that regard.

Also, starting since the merger last October, but particularly focused in the time period from mid-May until only a couple of weeks ago, we have made a series of announcements about business organisation and manpower. These have resulted from a set of business reviews that have identified fundamental changes in the market place as well as the much more pressing problems of the continuing excessive value of the £ by comparison with our major trading currency, the euro. Coupled with a tax regime in the UK that has loaded costs onto business and changes in the energy market that will add substantially to our costs of production, we have had no alternative but to announce changes in organisation structure that will result in more than 4,500 people leaving the steel industry in the UK by the end of next year.

Finally, we have announced a number of investment decisions. In the UK these have been large maintenance schemes, with the decision to re-line the No 3 Blast Furnace at Llanwern being the most recent example. Perhaps of greater long-term significance have been the strategic investments in aluminium and in downstream processing (for example in electrical steels) that have all taken place outside the UK and which will add in excess of 2,200 employees in Germany alone. Unless the economic fundamentals of the UK change very dramatically, this is likely to be the pattern for the future.

26 October 2000

Examination of Witnesses

MR FOKKO VAN DUYNE, Joint Chief Executive Officer, Corus plc, and DR JEFF EDINGTON, Executive Director of Technology, Corus plc, were examined.

Chairman

1. Mr van Duyne and Dr Edington, thank you for coming before us today. We are grateful for your attendance. However, at 9.30 this morning we were informed that Mr Bryant was not able to be here. We were told that there were problems with the trains and, as he had a slight touch of food poisoning, he was unwilling to go by car. This has been reported to the Committee this afternoon and there was a strong feeling that we really did want to see Mr Bryant as well as his other two colleagues. We do feel we have been trying to get this meeting for a long time, going back to February, and we are very sorry that we are going to have to thank you for coming, but actually say that we will have to reconvene this session and Mr Bryant will be asked to attend. I can inform you that that is likely to take place on 13 November and it will be a requirement that Mr Bryant attends. Thank you very much for your own attendance. I apologise that you have been brought here unnecessarily.

(*Mr Van Duyne*) We look forward to the next meeting.

MONDAY 13 NOVEMBER 2000

Members present:

Dr Michael Clark, in the Chair

Dr Ian Gibson
Dr Brian Iddon
Dr Ashok Kumar
Dr Desmond Turner

Examination of Witnesses

MR JOHN BRYANT, Joint Chief Executive Officer, Corus plc, was examined; MR FOKKO VAN DUYNE, Joint Chief Executive Officer, and DR JEFF EDINGTON, Executive Director of Technology, Corus plc, were further examined.

Chairman

2. Mr Bryant, Dr Edington, Mr van Duyne, thank you very much indeed for coming along today; and, Mr Bryant, may I say, on behalf of the Committee, that we are pleased that you are feeling better today, and maybe the trains have been kinder too, and you have been able to make it. On the occasion that you were not able to make it, I had a constituency engagement, so it is my gain that I am able to be here when you are here today, and thank you very much for coming. I think you know the background to our inquiry. We are the Science and Technology Select Committee, we are not the Trade and Industry Select Committee, so all that we are doing is focused towards research and development, and science and technology. And we wish to ask questions on this occasion about the effect of your merger on research and development within your new organisation, and while I imagine that we shall verge slightly towards the industry as a whole we shall try not to; we shall try to stay strictly within research and development. Now, before I ask the first question, would you like just to tell us your position within the organisation and introduce your two colleagues to us?

(*Mr Bryant*) Thank for, first of all, for your wishes. I think my own recovery was a lot more rapid than the transport system, and I am still here. I was Chief Executive of British Steel, which is one of the two companies that created Corus, and my colleague, Mr van Duyne, was the Chief Executive of Hoogovens, which was the other company, and we are now Joint Chief Executives of Corus, and have been since it came into existence in October of 1999. In sharing what is a collective responsibility for the overall fortune of the company, we focus in on certain areas, in that I am responsible for the operational businesses, and Mr van Duyne focuses on HR, technology, finance and strategy; so that is the way in which we split things, but it is very much a shared, collective responsibility, I think, overall, for the company. Dr Edington is the Executive Director, a colleague of ours on the executive committee, with a responsibility for technology, which currently covers information technology, research and development and environmental performance. Dr Edington was the Technology Director in British Steel, and had been from 1992; prior to that he had worked in the aluminium industry, and also in academia. Dr Edington is retiring at the end of this year, at the age of 61, and his responsibilities for research and development at that point will report directly to Mr van Duyne, so that the research and development aspect of it will report to him. So I think that is where we are.

3. Thank you very much indeed. I shall direct my questions, as other Committee members will, Mr Bryant, to you, but if you feel it is more appropriate that they go to somebody else, then please indicate, and if Mr van Duyne or Dr Edington want to make a comment, if they would kindly catch my eye, we will make sure that they can do so.

(*Mr Bryant*) We are very happy with that.

4. You kindly gave us some written evidence in April in which you told us that R&D is very important to Corus. I would like to know: is that statement still true, and if it is true how do you demonstrate that in your corporate strategies?

(*Mr Bryant*) It is very important to Corus, as it was to each of the previous constituent companies, and we try, in Corus, as I think both the companies had beforehand, to move towards raising our products to being higher value and to being something where we can offer our core customers something which is more than the normal material properties, and so the commitment to R&D remains as strong as we would have intended. Of course, events since then; in putting the companies together, a part of the activities of Hoogovens and a part of the activities of British Steel directly overlap, and that is in the carbon steel business, in the flat-rolled area of the carbon steel business, which is a very major part of the company, and that was an area where we knew there was a lot of duplication, and duplication as far as administration was concerned and duplication as far as other areas, including research and development. And so, at the time of the merger, we said that we expected to see substantial synergies arising from the merger, and one of those would have been, in part, the elimination of duplicated research and development but also refocusing some research and development so that we were getting the benefit of the best parts of that between the former Hoogovens organisation and British Steel. And, I think, one of the things, we sent an addendum to the evidence, which is that we have announced a restructuring of research and development in the UK, which would mean focusing our research and development activities on to one site in the UK, so

[Chairman *Cont*]
that for the new company we would have one site in Holland and one site in the UK, and that site will be located in the Sheffield area.

5. Following that second part of my question—how can this be demonstrated in your corporate strategy—in the same document that you sent us in April you pointed out that, typically, metals industries companies spend 1 to 1.5 per cent of their revenues on research and development, and yet we understand, from looking at your accounts, that Corus expect to spend only 0.9 per cent on R&D this year, which is 10 per cent, or 60 per cent less than typical metals industries spend. Why is that, and how does that square with your strategies?

(*Mr Bryant*) I think part of that is the nature of the spend on research and development, and I will ask Dr Edington to expand if I jump over some things. But, certainly, I think, what I have seen in research and development over my time in the steel industry is that there has been a move from heavy process research and technology more towards product and more towards market, so that we have moved more towards market sectors where we are seeking to grow. There was a time when a lot of research and development was on the basic processing, and we in British Steel had moved quite markedly away from that approach towards something that was focused on the customer. And I think that what that means is, in terms of what was previously process research, a lot of the process research is now transferrable technology around the world, where if one is looking, for example, to incorporate the best form of technical equipment, in some basic equipment, that is available by some form from elsewhere, in some cases by licensing from other people; so there is a change in the nature of it. And in basic process research we do spend less than we would have done before. But then, when you come to look at it from the market point of view, some of the market sectors that we have will command a much higher proportion of research and development expenditure. In the case of Corus, where we are not just involved in carbon steel but we are also involved in aluminium, the automotive sector is one which is very demanding, both technically and from a developmental point of view; so that our research and development expenditure would be disproportionately high in the case of aluminium and carbon steel in support of that particular market sector, albeit the total sector may only be 20 per cent of our total turnover. And there are then, conversely, products which in themselves do not require a great deal of technology, because they represent more of the run of the mill activity.

6. Obviously, I wish to invite other members of the Committee to put their questions, but one final one from me, and, I hope, probably a brief answer. Accepting that your spend this year is likely to be 0.9 per cent on R&D, and you have answered why that might be, what do you think it might be in the financial year starting in April 2001 and the financial year starting in April 2002? What I am trying to get at is: is this ability to license likely to drive R&D spending down, or is the demand for specialist products likely to send R&D up?

(*Mr Bryant*) That is a very big question. If things remained exactly as they are today then I think the R&D expenditure in 2001 and 2002 will be at a similar level, in percentage terms, of turnover that we have there; it might be, for the reasons I have said, of overlap and synergies, marginally lower, but it will be in the range of 0.8 to 0.9. The reason, I think, that I hesitated a little is that we have to look at where we can grow the company in profitable areas, and so, for us, we are in, at the moment, a period where we are looking to see what that means in terms of our ability to be profitable, because, for us, all research and development is about ensuring that the company is profitable. I have to say, and you will see this in our accounts, that really now for the last two years, the UK-based activities of what was British Steel and what is now Corus have been unprofitable, and that is something which is of concern, quite clearly, to us, it is of concern to others. And during the course of the last year we have had to take some measures, in trying to improve our cost base, which move away from research and development to other areas, where we have announced during the year some 5,000 job reductions in the UK, at that stage without affecting any capacity in the UK, because we were striving to maintain our productive capacity. But you may have seen that in October we announced some capacity reductions where we removed two blast furnaces, one in Scunthorpe and one in Llanwern, in South Wales. And, whilst they are driven by short-term stocking reasons, that there is too much stock around, there is a concern, looking forward, in terms of the ability, particularly within the UK, to service a UK market. And each time you see a report in the press about one of the big car companies talking, for example, about questioning their level of investment here then that does have implications back for us, because the strength of our home market, in the UK, is vitally important to the future success of the company.

Chairman: Thank you very much.

Dr Gibson

7. Mr Bryant, excuse me, because I grew up active in the eighties on the national executive of a union called ASTMS, of which Clive Jenkins was the General Secretary, and I spent my life listening to the same argument, in that period, as you are putting forward now. And that is that we have to drive down research and development because that is an area where we can make the cuts, basically, and that is where we can make the savings and we will be profitable, and then we will all be happy ever after; well it did not happen that way, did it, in most of the industries? The people we talk to now, who showed the entrepreneurial spirit and went for research and development, have survived in the global markets, be they pharmaceutical, or whatever. Now you are almost talking down your industry, in a sense, to the eighties, where mergers come about but at the end of the day the industry disappears and it develops in some other country, like Japan, and so on. The amount you are putting into research and development, 0.9 or 1.5, does not compare, it is probably the worst, I think, of any industry in this country; and what do you say to that argument that you are in your death throes?

(*Mr Bryant*) Certainly, I would not agree necessarily with your choice of language, in terms of it. In terms of Corus, what we have is, at the time of

[Dr Gibson *Cont*]
the merger we put together what was the third largest steel company in the world, and that represents something; and now, after other mergers, it is the fourth largest steel company in the world. Compared with our peers in the steel industry around the world, we are very much at an average level of spend, as far as research and development is concerned. And I think you may be addressing questions in relation to the nature of other industries, in that if you took the pharmaceuticals industry then the product itself, as an element within the turnover of the company, the actual production cost of the element is very small, and the research and development and the promotional activity and the testing, and everything else that goes with it, is very high. We are concerned, certainly in the carbon steel industry, the actual cost of our product is very, very high, in terms of what is the market price that we sell it for; by "very high" I mean it is often in the nineties, and if you are in a loss-making situation it is more than 100 per cent, which is the position that we have been in. And it is almost the nature of the industry, I think, that, globally, the steel industry is very, very competitive, because it is possible to move material around from location to location. So that, where I would completely agree with you, steel companies that are able to differentiate themselves from the rest, by going for niche business and by focusing on that, generally have been successful; but that is not something that is associated then with bulk production and the large investments that are associated with that. And I will make just one other comment, in relation to your comment about the eighties; the one thing that British Steel did, and, from talking to my colleague, it is a similar story in Hoogovens, what we did through the eighties was very, very much to try both to maintain the best quality of people that we had, that when we were faced with some of the restructuring that had to be done we tried very, very hard to maintain those people, to encourage them to come and work for us. And you will find that our track record, I think, with the universities in the UK, in attracting the best people into our operations, into our commercial activities, in terms of our R&D activities, is very, very high, to a point where our requirements for recruitment were beginning to outstrip the total production that was coming from UK universities, of suitable graduates. And so what we have done, over the period, is actually move in not just with our own sponsored students but we have created initiatives, like the engineering doctorate scheme, which is in universities, where we are promoting the development of graduates.

8. Were they entrepreneurial though, these bright young things you brought in, or did you just stick them around with a clip-board, and their grey suits. What did you do with these brains, when you got into that situation?

(*Mr Bryant*) Again, I will just say, the nature of the industry is that you need a combination, I think, of the brains that are best suited for all activities that we have got. If you are responsible for running things like blast furnaces and steel plants then, frankly, we do not want people to be too entrepreneurial, we want people who really do have a deep technical understanding of what they are doing, and make steps in a very careful, considered sort of way. I think, when you are dealing with somebody who is looking for opportunities for the product, in terms of seeing new opportunities to grow, then you are looking for those sorts of entrepreneurial skills, and generally they are a combination of commercial skills as well as technical.

(*Dr Edington*) It is probably worthwhile saying a little bit about how research is conducted in the drugs and pharmaceuticals industry versus our kind of industry. We are a physical sciences-based industry, and physical sciences have been developed over a long period of time and there is a lot of theory, there is a lot of mathematics, and so the process of doing research is quite efficient, you do not have to do so many experiments because you can work closely with theory and get to the result quicker, so the process of doing research is not so people-intensive. If you go to drugs and pharmaceuticals, it is quite different; there is not much theory, it is a massive experimental activity which starts off with thousands of compounds and winnows it down to one or two over a period of years, so it is very people-intensive. So you end up with a more expensive, fundamentally more expensive, R&D activity to get the same kind of result; so it is quite a different process.

9. I can accept that, but there is a lot of similarity. Let me ask a final question then. So a merger came about; what drove that merger, and what difference would that make to research and development, given that you have said that it is important, just a tiny bit is important? It is not really what you are after, though, is it, in that merger?

(*Mr Bryant*) I will deal, I think, with just two or three points there. First of all, in terms of what drove the merger, it was, first of all, I think, overall, something where we saw the two companies' objectives as being quite similar, and that we thought that both were looking to be more in what we said was creating solutions for customers, which meant that we were wanting to put resource working with our customers, some of that is technical, some of that will be research and development, and some of it will be commercial experience as well. So that was it. In particular terms, for Hoogovens, I think a big driving force was that they were a very efficient, medium-size, carbon steel company, with a very sizeable aluminium interest; but they felt that they had reached a stage where they would be better off linking with somebody who was bigger in carbon steel, and, for them, I think their preferred partner was British Steel. For British Steel, which has been primarily a UK-based company from the point of view of manufacturing our products, and over the time, from the seventies to the eighties to the nineties, we have moved from being something where, at one stage, 80 per cent of what we made in the UK was consumed in the UK, to where we are today, where what is made in the UK more than 50 per cent of it is exported from the UK. And so, for British Steel, Hoogovens, as a manufacturing unit in mainland Europe, offered some great attraction in terms of having a better balance of operations. So those were the factors that drove it. And I have to say that, when Fokko van Duyne and I were first meeting and talking on that, the thing was driven very much by a similar outlook technically, and, if you like, the opportunity to save money on research and

[Dr Gibson *Cont*]
development was a very, very low factor, as far as the merger was concerned. The merger was driven much more by creating a large international company that would be capable of giving our customers a much better service than they had had before, very much driven by service.

Dr Kumar

10. Mr Bryant, Dr Edington is still the Group Director of Research on the main board; when he was appointed it was a great achievement, certainly, historically, for an executive director to be on the board. Now that he is leaving, many would say that your importance to research and development is being downgraded, because his responsibilities are being transferred to Mr van Duyne, and research and development is no longer seen as important as it was once upon a time. What would you say to those people?

(*Mr Bryant*) Factually, there is a slight difference, I have to say. In the former British Steel, Dr Edington was on the main board, but since the merger was formed he has not been on the main board, he is on the executive committee and is an executive director but he is not on the main board. And, in the structure of the new company, at the time of the merger we had only five executive directors on the new board, of whom two were Mr van Duyne and myself, and it was our colleagues, John Rennocks, the Finance Director, and Tony Pedder, and at the time Aad van der Velden; now Aad van der Velden retired in the summer, and so today we have only four executive directors on the board of Corus. The second thing is, in relation to the position of technology, when Dr Edington joined British Steel in 1992 he succeeded Dr Fitzgerald, who retired, and Dr Fitzgerald was also on the main board of British Steel, and Dr Edington remained on that until the new merged company. And what we have done, we had ten people on the executive team within Corus, we felt that we were a bit more effective by reducing the numbers there and being more productive, so that when Mr van der Velden retired in the summer we did not replace him on the executive committee, and when Dr Edington retires at the end of the year we will not replace him, so that the executive committee will reduce to eight. But the responsibility for technology and research and development is today the responsibility of a man called Hans de Wit, and he reports to Dr Edington, and when Dr Edington retires Hans de Wit will report to Mr van Duyne; so that the position of R&D within the company is seen to be reporting in at the highest level.

11. But, surely, the Corus merger that has gone ahead, while the old British Steel had seen R&D far more important, would you not say, than the Corus merger, because actually you had taken out the position of Dr Edington compared with British Steel, does not that demonstrate that actually you do not see R&D as important as British Steel had seen it previously?

(*Mr Bryant*) I think my colleagues may both want to come in, but what I say is, I think no, because, in an earlier question, I think to Dr Clark, I referred to a move that I had seen in British Steel and in Hoogovens, where you move closer to the customer and you become an organisation that is much less a manufacturing organisation and more a customer-driven organisation. But if you went back to the old days of the nationalised industry in British Steel, it was a very functional, manufacturing-driven organisation, and so each of the functions tended to report in at the board level. What has happened, I think, in our company, as with others, is it is much more a business-driven thing, and so that our company now is structured not with functional lines but we have got a series of Business Units, which are profit centres in themselves, for which research and development centrally is a service which those businesses use. So I would say that, to some extent, we are reflecting perhaps a more modern way of running businesses with some devolved profit centres.

(*Dr Edington*) I am actually quite relaxed about it, and I think it is a step forward; and my reasoning behind that is, it is extremely important for technology to be embedded in the business decision-making processes. And to have technology reporting to Fokko, who is a CEO, and to have information technology reporting to an executive director, and to have environment reporting to an executive director, means that these technologies are deeply embedded in the decision-making processes of the businesses. And I think that is critically important when you are in a market-driven company, which we are trying to become. I think, historically, when we were process-driven, R&D sat there as a separate entity and it was not deeply integrated with what went on in the business, quite honestly, and I think that was a bad thing. So I am quite relaxed about it. It is not perfect, I can think of ways to improve it, but the fundamental reporting position of R&D and other forms of technology, I think, is better like this, in our kind of industry.

12. You would not say that R&D is a sinking ship and it no longer matters?

(*Dr Edington*) No, absolutely not; absolutely not.

13. You would not say that; and that is not the reason why you are leaving?

(*Dr Edington*) I get quite emotional about it; if I thought that was happening, I would not be leaving.

14. You would stay?

(*Dr Edington*) Absolutely, and straighten these guys out.

(*Mr van Duyne*) I would like to add one little thing, and it is that the position of R&D within the Hoogovens organisation was a very strong one, and the reason for that was that we have combined the reserves from our aluminium activities and the steel activities into one entity. And we felt that, in order to support our customers better, we needed an enlargement of that, and that was one of the reasons that we merged with British Steel; and in the combination of the two the relationship to our sales went up because of the combination of the two. And we, from Hoogovens, have always had an enormous direction of reserves, and we found, in British Steel, let us say, the strength which could push us up in that relationship. So I would like really to stress that,

[Dr Kumar *Cont*]
although Dr Edington is leaving the company because of his age, I think that the focus of the company—

Chairman

15. I would remind you, Mr van Duyne, he is four years younger than I am; so you might like to phrase that another way in the transcript?

(*Mr van Duyne*) I have to be careful, I know, because it is very sensitive. I think what is really happening is that the organisation of Corus is really more strongly committed towards research and development than, as I say, in the separate position of the two companies prior to that, because we were looking for a broadening of the base instead of a reduction of the base. And now what we are trying to do is to do that research more efficiently, and that is what was described by John Bryant.

Dr Kumar

16. Mr Bryant, when the merger was first announced between Hoogovens and British Steel, great claims were made; it was in the press, a new dawn was going to emerge, great success, and wonderful things were said, and everybody was delighted, up and down the country. But would you say, since then, it has been an absolute disaster, as far as R&D is concerned? And I know what you said to the Chairman of the Committee earlier. Because here we have a situation where three technology centres in the UK—the Teesside, the Welsh and the one in South Yorkshire—are being merged together, and 230 jobs are being lost; scientists, technologists, engineers, metallurgists, some of the most able people in our country actually are being told to go and join the dole queue. Now would you say that that is still a wonderful dawn? It is a great beginning for R&D for a new company; given that we are trying, as a Government, to say that education is our priority and trying to educate our young people and to have more scientists and engineers, would you see, six months down the road, that merger as a great achievement?

(*Mr Bryant*) Certainly, the primary rationale for the merger, which I think I recounted earlier, the conditions there remain as valid today as they were then. I think one has to say that the conditions, some 18 months on from when we announced the merger, for manufacturing in the UK and for basic, primary manufacturing that you recount, I would say, is not necessarily the best place to be. For a company which does 90 to 95 per cent of its business in Europe, we are exporting beyond that, but from the UK in Europe, the continued strength of the pound and weakness of the euro has massive significance, as far as the operations in the UK are concerned, and that is something which we have said repeatedly, publicly and privately, but it is a fact that cannot be ignored. In common with other manufacturing industries which rely on exporting products which consist, in the main, of materials and labour from the UK, which do not in themselves contain a very high level of knowledge, we are finding life extremely difficult in the UK. That is my first point. The second is, in relation specifically to R&D, our recruitment plans, the way in which we recruit people, all the way through, has been that we look to recruit the best technologists, materials scientists, who will come and work for us. The rationalisation that we are making now, in terms of creating one modern Technology Centre, is one where we are looking to retain people who are prepared to move, and, in realistic terms, if we are talking about having one centre in Sheffield, it does mean that people in Wales, or for people in Teesside, there is either an opportunity of moving to a new Technology Centre, or there is an opportunity of moving into the works which is alongside them, or then, for the individual, there is a problem. But what I will say is that we are actively trying to retain and encourage people to be mobile, and mobility, I think, is at the core, as far as that is concerned. Can I also make just one point, as far as when you referred to the Government; we are at the heart of manufacturing, where it is the physical sciences that mean a lot to us. And I have to say this as a source of concern, there is a real concern that we have seen through the last ten years, which is the progressive deterioration of the standards as far as the physical sciences are concerned, both in the schools and in the universities. We recruit, as I am sure you are aware, at 16, at 18 and at 21, and even the basic core, as far as the physical sciences are concerned, physics, is, for the company and for me personally, a real source of concern for the future; because without a firm foundation in physics, which is the core of any engineering or manufacturing approach, then life will be very tough in the future for other manufacturing concerns. And I do not think people should pretend that the state of teaching in physics in this country is anything to be proud of at the moment. Where you have a situation where there is only one physics teacher between two schools, which is the case in parts where we operate, that is a serious problem.

17. But, you see, you say all these things, Mr Bryant—I hear, but, you know, your closure of Teesside labs hardly generates any confidence, in Teesside, in a company like Corus, because you have actually closed a viable lab, which was very successful. And I could say the same thing about the Welsh Technology Centre, because that was a centre which was taken out of research then it was put back in again, and nobody understands to this day the logic of that. And now you are saying to me that actually three technology centres are going to be merged into one. Actually, you may have some sense of trying to put them together, logically, because it may rationalise, it may reduce; 230 jobs are going; you accept that as a fact, and well-skilled jobs as well. But nobody understands; how does that generate confidence in the areas where the businesses are, because if you are trying to link in your business with your research, and yet close three centres down, how does your strategy fit in with that, because I fail to see it?

(*Mr Bryant*) I think that, if you look at what we have at the moment, which is a company which has four Technology Centres and we are bringing those down to two, there is huge scope to use the accumulated expertise and the knowledge which exists in Holland to spread across the UK. We are also looking to use what we have in the UK, focused

[Dr Kumar *Cont*]
on one Technology Centre, to be used across the whole of Corus. I think one of the things that Dr Edington led, when he joined the company in 1992, British Steel that is, was that we were much too focused on research for its own sake and we were not using the skilled resources we had to develop things within the works. And so what happened was, in the three or four years immediately after Dr Edington joined, we had a substantial movement of resources that were previously in Research Centres that we moved in closely in support of manufacturing operations and our customers. Which is one of the reasons why, in the narrow field that we measure of R&D, we may come out with one measure, but if you looked at what we have in the way of technical resources and qualified technical resources that are now working on groups within our manufacturing works, they are quite substantial. And the other thing that I think we have found is that, if you look at having three Research Centres, the technologists are a large part of it, but the administration, the service costs and everything else associated with it are also high, and so if you bring that down to one unit you will have the same administration cost for one as you previously had three times over with the three; so that it is not all about getting a reduction in technologists. I will say what I have said before, we will actively try to recruit and retain skilled technologists; they are the life-blood as far as a company like us are concerned.

18. Let me read to you what the Steel and Industrial Managers Association said to us; they said the R&D personnel are "forced to uproot their families and relocate, in many cases to a foreign country . . . The choices they face cause stress, desperately low morale, and the work output and quality is suffering as a result." That is what the Steel and Industrial Managers Association said to us. What have you got to say to that?

(*Mr Bryant*) I can imagine that that is a view that people who are in a position—

19. Do you share that view?

(*Mr Bryant*) The people who are in a position where they are not able to move, or they do not have the ambition to move, would take. I could give you the converse, which is that when you are recruiting young, talented, able people in the UK, the fact that they now have the prospect of working in a foreign country, when they join the company that is called Corus, is attractive. There are some people who are looking to work in the foreign parts of the company that we have, in—

20. What evidence have you got for that?

(*Mr Bryant*) We have got people working in Holland at the moment.

21. And are they going very happily, because they are very happy to go there?

(*Mr Bryant*) And certainly from the point of view of recruiting people to come to work for us then the attractions of working for an international company are high.

Dr Turner

22. I am sure you have been reading the press, as we have, and noting many reports that indicate that some of the problems that Railtrack are having with rails, which, of course, are produced by your company, point to a possible disadvantage in characteristics of the material that is currently being produced for steel rails. I believe that the one that broke at Hatfield had been installed less than a year ago. And it seems that these rails have a tendency to fail without any warning, and this failure can be quite catastrophic. Now, clearly, there seems to be a fairly serious R&D problem there; are you going to have the capacity to deal with it?

(*Mr Bryant*) Perhaps I can ask Dr Edington to comment afterwards, but I will, in general. We have been working very closely with Railtrack on that particular incident, and they have been using our technical resources both in our rail business and in our R&D to help to understand all of the factors, of which there are many, I think, associated with that particular thing. And the short answer is, we do have the capability to deal with that and we will have the capability to deal with it. One of the things that we have done is, just over a year ago, we bought a French rail company, called *Sogerail*, which is itself the main supplier to the French high-speed rail system, and we bought that company because we saw rail as being something which was potentially a growth market around the world. And so we will also be using the experience of our French rail company to help to get to the bottom, as far as the whole of that particular incident is concerned, and also, I think, may I say, personally, as a regular commuter on Great Western, to upgrade the quality of the Railtrack system; and nothing would please me more than being able to drink a cup of coffee at speed.

(*Dr Edington*) I just want to be absolutely crystal clear, and brief; there is no question in my mind, we have a solid knowledge base, we have the people, we can deal with that problem now and well into the future.

23. Can you just expand a little on the proposition that you had a 20 to 25 per cent overlap in your R&D activities between the two parent companies; can you say what those areas were, and are you quite sure that, having taken out overlaps, you have not lost something?

(*Mr Bryant*) Could I just say, Chairman, that, I think, in general, and perhaps Dr Edington could expand, in carbon flat steel, we were almost equal in size, that Hoogovens was around 5.5 to 6 million tonnes of product, and British Steel was about 7.5 million tonnes of product. Now some of British Steel's carbon steel went in the constructional area, which had little or no overlap with Hoogovens, but in the flat products, in that 12, 13 million tonnes, which is a very sizeable chunk of our operation, we were almost directly overlapping on that particular area. So that, if you just looked at the company as aluminium, where there was no overlap, there was stainless steel where there was no overlap, but in the flat steel area it was almost 100 per cent overlap.

(*Dr Edington*) It is probably quite important to say this. We have spent six months looking at the programme, project by project, we have had five senior directors out of R&D doing it, and we have

[**Dr Turner** *Cont*]
gone through every project with a fine tooth-comb, and even where you are tackling the same problem you find a particular approach is better than another, so we have been able to combine the best of one project with the best of another project to get the best result. It has been an extremely detailed analysis, not one undertaken lightly, because it is recognised that the future of a lot of people is involved, at the end of all of that, and so it has been done extremely professionally. I do need to say, this is the second time I have done this. I was in Alcan when Alcan and British Aluminium merged, and we went through the same kind of process there, and I am quite clear that we have done the best possible professional job on it.

Dr Iddon

24. Can I move on and suggest to you that the redundancies in R&D appear not to have been made on a 'last come, first out' basis; they seem to have been made on seniority, which is of great concern to me, because people are promoted into senior positions because of expertise and high performance in a specific R&D area. Are you going to lose all that expertise, and will it have an impact on the company if you do, or has it been passed down?

(*Dr Edington*) I do not think it is true that it is a question of the older people all going, and that is the end of it. What we have tried to do is to balance the skills base that we need for the future with the skills base that we have now, and we have knitted that together with the projects we are doing now and the projects we expect to do in the future, and we have looked closely, with our customers, at what their expectations of us are going to be. So the activity has been skills- and knowledge-based, not aged-based, speaking as the oldest member of the executive committee of the company. So we have done it very, very professionally. I have to say, every company like ours is concerned about losing skills and knowledge, and most companies like mine try to put a process in place which retains that; it is a very, very sensitive issue, and we are doing the absolute best we can to retain that knowledge within the company. But I will not say to you it is easy, because people often have knowledge that they have not realised they have got and it does not come out until they are facing a particular problem; so it is not an easy activity, but we are doing it. And I think I can be absolutely categorical, no-one is being let go because of their age; absolutely no-one.

(*Mr Bryant*) Could I add, Chairman, just one point, which is relevant not just to R&D but to other areas of our activities in the UK as well. It is a fact that we try, wherever possible, to avoid compulsory redundancies, and one means of doing that is by trying to see how many people are volunteering for redundancy, and we do have a very good, sound, pension scheme, which is still called the British Steel Pension Scheme, which does mean that people are able to retire from the age of 50, albeit at that age with reduced benefits. One of the things that we have tried to do is, if it is a question, and this applies generally in the manufacturing area, of an individual who has skills and a younger man who does not have the skills, that we try then to train the younger man and allow the older man to retire, because that is, in that sense, a less painful way of the redundancy being made. And so that, locally, where most of these things will be done, people do work very hard to try to get that cross-matching arrangement as best they can.

25. Most of your present customers that benefit from your R&D are operating plants and businesses here in the UK. SIMA suggests that by moving research activity to The Netherlands, which is what you are doing in a significant way, you are going to damage the relationship, through doing that, with your customers, for example, by increasing response times, and thereby cost. How would you guard against that?

(*Mr Bryant*) I think that in any change you have to be mindful of that, and it is a concern, but I think it is something that can be managed very well; because the actual relationship with customers, I stressed earlier on, the commercial relationships, the technical sales, in support of that, they are the front line in terms of dealing with the customers. And where that actual technology takes place is less important than the service that is being provided; and even where we are structured in the UK at the moment there is not one of our laboratories that is really close to one particular car company, or dedicated one to the other, they handle things on a pretty cross-matched basis.

Dr Kumar

26. Just to follow on from what Dr Iddon was asking: you are transferring all your process research mostly to Holland, 25 jobs only to remain in the UK. Are you seriously telling me that you actually can assist the works in Wales for process research from Holland; are you seriously saying it is nearer from Holland to get to Wales than it is from Teesside, or from Rotherham, or from Wales itself?

(*Mr Bryant*) In a way, I think you have almost said it yourself, that process research was, in British Steel, centred at Teesside, and the distance between Teesside and South Wales, compared with IJmuiden and South Wales, is not that much different.

27. But what about the travelling time and all you are going to add to the travel, and the equipment they are going to have to carry to get across to the works, if you want to do that?

(*Mr Bryant*) But most exchange of information will take place electronically, at the moment. At the Teesside Technology Centre, they have the ability to monitor every one of the blast furnaces in the UK, and they do not physically have to be there, they electronically tie into it; and the same thing can apply from Holland. I have been shown it at the Teesside Technology Centre, where they have shown me the workings at every site in the UK.

Chairman

28. We have a press notice here, Mr Bryant, dated 16 June, and you tell us about your plans there, and you make it quite clear, in that press notice, as you did to this Committee earlier on, that a large proportion of your research is customer-oriented and product-oriented; and that we understand. But you

[Chairman *Cont*]
are going to have a new Research Centre, and we wonder to what extent you might be having 'blue skies' research, original research, in that Research Centre. Have you dismissed blue skies research, are you going to buy that in, as you are going to buy in your process technology, or are you going to try to contribute to the blue skies research of your industry?

(*Mr Bryant*) If I could make just a couple of observations and perhaps ask Dr Edington. I think one of the things in the merger is that we now have access to not just the Hoogovens research, but there is an organisation called CRM, which is in the Benelux, which is another research organisation, and I think we do have much better access to those sorts of things. What I would have said, in terms of blue sky research, we would tend to do that sort of work more in direct conjunction with universities, if it was something that was more appropriately done there; and I think we have moved progressively away from individually trying to carry out, on our own, blue sky research. Albeit, for all that, there is a small, strategic budget maintained at the centre, which is the responsibility of Dr Edington, and will be of Professor de Wit, which is for, what we call, seedcorn research, for strategic projects, that may or may not succeed.

(*Dr Edington*) Blue skies research has changed. There was a time when blue skies research was steel research; blue skies research now is about integrating what is happening in the world out there and bringing it in to do something unique within the company. Because you cannot cover all of these bases, you cannot possibly, with 1,000 people, do research on everything that matters to you; so the key thing for us is to monitor what is going on, to sponsor research in various universities, as a means of doing that, but it is an integration activity now, not a steel research activity, and that is true for most—

29. So reassure me then that, even if you may not be doing blue skies research, you are doing blue skies research monitoring, to make sure it is available to you should you need it?

(*Dr Edington*) Yes, and we are also spending, in those terms, blue skies money to bring it inside, before it is necessarily obvious what it is capable of doing.

Dr Gibson

30. Is the restructuring process finished now; is it over, in your heads, or in practice?

(*Mr Bryant*) I have worked 35 years in the steel industry, and it is never over. It is a constant process, a remorseless process, against a cost/price squeeze, where you have to be better every year; and so one can never sit back and say it is over. I have got to say, as well, coupled with what I said earlier, in the UK at the moment it is particularly difficult. So, in terms of it being over, the answer is no.

31. Is there any specific thing that worries you, that might precipitate a restructuring?

(*Mr Bryant*) The continuing weakness of the euro and the strength of the pound is, for our industry in the UK, a very, very strong factor; and, I have to say, it is our customers in the UK whom we are concerned about.

32. And, this new facility in Sheffield, how far along the road have you got with that; is it a hole in the ground, or is there a building emerging?

(*Dr Edington*) We are at the stage where we have gone out to architects, we have chosen an architect, the architect has come up with a design, we are pretty close to deciding a site; that is how far we have got. The plan is to be in place and up and running by 1 January 2002, which is only 15 months away.

33. And Sheffield was chosen rather than, say, Birmingham, for some reason?

(*Dr Edington*) The Sheffield area has been chosen, yes.

34. Was there a reason for that; how far around the country did you look for a site?

(*Dr Edington*) We looked, obviously, in Teesside, we looked in South Wales, we looked in Rotherham, in the Sheffield area, because that is where our sites are already. And there is an issue, comments were made about making people move from Teesside, if you put a laboratory in Birmingham, you have got people moving from Teesside, Rotherham and Wales, so it makes it worse. So our tendency would be a place where we already are, Sheffield is a great area, it is close to Sheffield University, Hallam University, Manchester University, you can get to Birmingham easily, it has got its own airport now; so it has got a lot of good things going for it.

Dr Iddon

35. Can I quote something that the company said in March: "From the Corus point of view, the UK is a good location for R&D." Why do you see the UK as a good location for R&D?

(*Mr Bryant*) I would say, I think, that our comment there was that we had good links with universities, we had developed, in the areas where we manufacture, some very strong links with universities, and that we thought that the UK was an area where technologists from other countries would come and work as well. And that, if you looked at it just from an R&D point of view, which is the question we were answering, we thought that it represented a good place to be.

36. What has changed, if you are cutting 43 per cent of your research personnel here and only 6 per cent in The Netherlands?

(*Mr Bryant*) Because of the overlap and the potential that there was here, and, I have to say, even within the former British Steel, we would have been moving towards rationalising our Research Centres anyway, driven by the merger or not; but I think that it is something where we could see the extra impetus that the synergies and the overlap were going to give us.

Dr Kumar

37. How much is it going to cost you, that reorganisation?

(*Mr Bryant*) I would not comment on that, because I think—

38. You would not comment, or you have not done the sums?

(*Mr Bryant*) Oh, no; no. I think you are talking about commercial information, but you are talking about a significant sum, and the total cost will be in the low teens, of millions.

Dr Iddon

39. So, if I can just repeat, what is the main reason for your shift in emphasis between the two countries, between the UK and The Netherlands; is it because the projects are in The Netherlands, that you want to concentrate on?

(*Mr Bryant*) No. We saw the company as being something that had a large base in Holland, which was also supporting aluminium, and we looked to say, well, could that be supported, could we support the Dutch activities from the UK, could we support the UK activities from Holland; and we came to the view that two centres was the right way to do it, compared with the four at the moment.

40. The Committee's concern is that there might be factors that are discouraging your R&D activities here in the UK, and if there are, we would like to know about them, obviously?

(*Dr Edington*) I think, if you want, on the table there are no issues now, but there is a looming issue coming, which John Bryant has referred to, about physics teaching; physics teaching is the core of physical sciences, and you know what the figures are, a thousand teachers leaving, a year, 150 replacing them. Physics is the core of engineering, materials science, any physical science, that is at the basis of the digital revolution that this country is looking to for the future; it is extremely serious for a company like ours to be faced with that. I think the world of the future, if I can harp on a little bit, is about the digital revolution and the biological revolution; the biological revolution is quite well dealt with in the educational system, the physics-based revolution, or the digital revolution, is not. We participate in the digital revolution, and, personally, having lived in America, lived in Canada, educated my children on both sides of the Atlantic, I am extremely concerned about this situation. We are going to move, as an economy, into a world where we cannot service it with people.

Dr Kumar

41. I must press you, Mr Bryant; you have not answered my question. I have asked you what is the cost of the three labs merging together? Are you telling us that you are not prepared to tell us or you do not know what the figures are?

(*Mr Bryant*) I can tell you that the cost of the creation of the new centre is £17 million.

42. It is going to cost £17 million, itself?

(*Mr Bryant*) Yes; about that. If you need an accurate number, I can give you one.

(*Dr Edington*) Yes; about that.

Chairman: We do respect that; if there are commercial figures you do not want to give us, on savings, we will not press you on that.

Dr Turner

43. How do you think you could encourage industrial development in R&D, either in the metals industries, or in the UK more generally?

(*Dr Edington*) The fast answer to that is the obvious answers that I gave in Canada and the United States; tax credits are a great way to do that, and that is the most obvious thing that can be done. In the long term, having an educational system that supports it long term is also a key issue.

44. And are there any factors specific to metals industries that affect industrial investment in R&D in the UK, leaving aside the ones we have discussed, the physics education problem and the currency problem?

(*Dr Edington*) No.

(*Mr Bryant*) No. I think they are the biggest factors. I would just add that, as British Steel, now as Corus, in the UK, in the metals industry, in the areas where we possibly can have done, we have done, I think, a hugely successful job in promoting links locally with schools and with local universities, because we have had to adopt an approach of self-sufficiency.

Chairman: We will stop at that, because the bell will go any minute now. We have done extremely well to get through so many questions, of such complexity, in one hour. That is credit to you and your colleagues for the succinct answers you have given us, that is mainly the credit; a small amount of credit to the Committee also for being brisk in their questions. May I thank you, on behalf of the Committee, very much indeed for coming along today, giving up your afternoon and your evening, to help us with this inquiry. The questions might have been a bit barbed and pointed at times, but our heart is in R&D and we want to do all we can to make sure that R&D in this country, and I suppose in the European Community, is the best it can be. And when we have inquiries of this type, if we are looking as though we are a bit sharp, it is only because we are all scientists and engineers round this table; we understand fully the comments made about science and engineering, in particular physics, and we wish to try to help in that regard, and we think this inquiry will do that. So, once again, may I thank you very much indeed for coming this afternoon and helping us with our inquiry.

WEDNESDAY 22 NOVEMBER 2000

Members present:

Dr Michael Clark, in the Chair

Sir Paddy Ashdown
Dr Ian Gibson
Dr Brian Iddon
Dr Lynne Jones
Dr Ashok Kumar
Dr Desmond Turner
Dr Alan W Williams

Memorandum submitted by the Steel Industrial Managers Association (SIMA)

INTRODUCTION

1. The Steel Industrial Managers Association (SIMA) is an independent trade union representing middle managers, professional engineers, and scientific personnel working within Corus and has 3,500 members in the company, 400 in the technical centres based in South Wales (WTC), Rotherham (STC) and Teesside (TTC). The bulk of these are covered by collective bargaining.

THE MERGER

2. Since the formation of Corus (the merger of British Steel and Koninklijke Hoogovens) significant changes have been announced in the combined Research, Development and Technology (R,D&T) function of the company. Most of these changes appear to be impacting on the UK side of the business, however, it is entirely possible that if the merger had not taken place, under the present trading conditions, British Steel would have been forced into a retrenchment programme. It can be argued that Hoogovens is, to some extent, currently supporting a massively unprofitable British Steel, particularly in the Flat Products Business based mainly in South Wales.

FORWARD PROPOSALS

3. It has been indicated that in future the research programme will concentrate on long term development and "blue sky" research projects. In the UK, research has tended to be fixed on shorter term projects with a minimum term pay back. Merging with an organisation whose goal appears to favour longer term objectives should be beneficial in achieving this change in emphasis. On the other hand it is not clear how this future programme will be funded. In British Steel the research programme was clearly funded by various businesses who preferred to support work with a clear link to improving their profitability. It is by no means certain that they will be prepared to contribute to projects with an uncertain result. Another factor is that the current Director of Research, who is an Executive Board Member of Corus, has announced his retirement and Corus have indicated he is not to be replaced. One must question whether R,D&T is seen as less important by Corus than the former British Steel?

R,D&T ORGANISATION/RE-ORGANISATION

4. The initial R,D&T organisation maintained the existing three Technology Centres in the UK and added the IJmuiden Technology Centre (IJTC) in the Netherlands. The concept was "One Technology Centre on Four Sites". The management structure appeared top heavy with a Managing Director and five Directors. This structure was not viable from the start and after a long period of deliberation a new structure emerged in which the closure of the three existing UK Technology Centres was announced together with the proposed building of a new Centre in Sheffield. This meant that all the technologists in Teesside and Wales would be forced to either relocate to Sheffield or IJmuiden, or into their local business units, or leave the company. Optimistic estimates of the number of jobs to be transferred into the business units were announced, which subsequently have been shown to be completely unrealistic.

5. One obvious effect of the R,D&T reorganisation announced by Corus is a dramatic fall in the number of people who will be employed in the new structure. British Steel's R,D&T manning level was 830 spread across across three sites. In 2002 this will be approximately 450 people employed on one site (Sheffield). By 31 October 150 jobs will already have been lost in the UK. Although there have been no compulsory redundancies since most of the reduction has been achieved by allowing staff to take early retirement, there has been an enormous loss in experience which will take years to replace. According to Corus the balance of the remaining job losses in R,D&T in order to achieve the target figure of 450 will be accomplished by

transferring staff to works based jobs. In view of the current trading position of Corus this is looking increasingly less likely to happen and it would appear that future redundancies are inevitable. These will most likely occur when the Welsh and Teesside TCs close and staff who do not wish to transfer to either Sheffield or Ijmuiden will leave Corus. A knock on effect of these job losses is that Corus's image as a good place to work will be tarnished in the eyes of many potential recruits. Corus R,D&T needs to employ the best people possible and adverse publicity will only make this harder. Until the new centre opens, there will be continued uncertainty and loss of experienced staff. As part of this uncertainty, new research projects are not being started at WTC but are being started and managed in IJTC.

Morale

6. Experience over many years in the UK of relocating groups of people has shown a very low take up rate for transfers, with 20-25 per cent of people moving. It is likely that an even lower success rate for international transfers will be achieved. This again has accelerated the loss of experience and knowledge which has now also become a loss of future potential as the younger scientists and engineers leave the industry in what has now become a flood. We now have an R&D organisation in which the older, most experienced and knowledgeable staff have opted to leave in the "synergy" exercise, and many of the younger graduates with potential have found, or are looking for, alternative employment. This leaves a group who are not old enough to draw a pension, but may be too old to find suitable alternative employment, who feel embittered that their loyalty to the company has been so clearly a one way process. Their reward is to be forced to uproot their families and relocate, in many cases to a foreign country. For many people this is simply not possible for family reasons. The choices they face cause stress, desperately low morale, and the work output and quality is suffering as a result.

Effect on Customers

7. The customers for R&D are the operating plants and business units, roughly two thirds of which are in the UK. Process R&D is to be concentrated in the Netherlands and the UK plant managers are expressing the view that, because of longer response times and increased costs, they will reduce the level of support for process R&D. This reduction in investment will have major adverse consequences on the efficiency of operations in the UK in the future. This at a time when the company faces extremely difficult trading conditions and needs every bit of process efficiency it can muster to survive. This then is a vicious spiral, R&D is cut for so-called synergy reasons, process R&D is relocated to Holland and the customers respond by cutting support, this means further cuts in R&D are likely to follow and the spiral takes a further twist. It is clear that this spiral has been triggered by management action and is therefore a self inflicted wound.

The Summary

8. Overall, the merger to form Corus has had little benefit to research in the UK. Research is being carried out preferentially in Holland, with less involvement of the experienced UK staff. The fact that the bulk of process research is to be undertaken in Ijmuiden (only 25 jobs in the UK) would leave UK steel production in a very vulnerable position should the merger collapse. The loss of experience as a result of job losses in Wales and Teesside is incalculable and cannot be replaced in the short term.

23 October 2000

Examination of Witnesses

Mr Gordon Hopwood, National Secretary, Mr Peter Jones, Welsh Technology Centre Branch Secretary, and Mr Chris Treadgold, Trustee, Steel and Industrial Managers Association (SIMA), were examined.

Chairman

45. Mr Hopwood, welcome to our Select Committee. Mr Treadgold and Mr Jones, welcome too. Mr Hopwood, we are going to put questions to you about Corus. You will know that we are the Science and Technology Select Committee and that our interest is really in the Science Base. We are investigating how the amalgamation of British Steel and Hoogovens has affected science within the new Corus organisation. I think you may have been present in the public galley on the previous occasion.

(*Mr Hopwood*) Yes.

46. I thought that was so. We shall direct questions to you, Mr Hopwood, but if you think it is more appropriate that Mr Treadgold or Mr Jones should answer, please indicate and we will be very pleased to hear from them. Also, if Mr Jones and Mr Treadgold wish to say anything, if they catch my eye I will make sure I call them so that they can have their say. May I also say that Dr Kumar, who may well be known to you personally, cannot be with us at the present time because I believe he is with the Prime Minister lobbying on behalf of the steel industry; so his absence, I am sure you will agree, is for a very good reason. He hopes to join us before this session is over.

[**Chairman** *Cont*]
Mr Hopwood, is there anything you would like to say yourself before I ask the first question? Would you like to introduce yourself and your colleagues and tell us what your jobs are, what your roles are within your organisation, and something about your Union perhaps.

(*Mr Hopwood*) I am the National Secretary of SIMA, which is the Steel and Industrial Managers Association. That is a semi-autonomous union within the AEEU, the Amalgamated Engineering and Electrical Union. We are predominantly in the steel industry, although the name implies that we are in other industries. We have some other small parts but we are predominantly in steel. We have, in fact, about 3,500 members in Corus (UK). My colleague, Mr Treadgold, is a scientist working within technology, as is Mr Jones. Mr Treadgold works in Teesside and Mr Jones works in South Wales.

47. Thank you very much indeed. The first question I was going to ask, you have already answered. That was: how many people have you got working in Corus? You said 3,500. They are all working in a scientific and technological capacity?

(*Mr Hopwood*) No, only about 400 are working in the technical departments. The rest of them are working either as middle managers or engineers, professionals, in the works.

48. I thought that was a very high number. In fact, when we had our last evidence session I think 400-450 was the figure given.

(*Mr Hopwood*) It is about 400.

49. Can you tell us to what extent your Union was kept informed by Corus management regarding the restructuring of the R&D technical programmes.

(*Mr Hopwood*) We were kept informed. We were concerned, however, that initially when the merger was announced—and I would be the first to admit that the climate was a different one financially, the pound was not as strong as it later became and put the company under great pressure—but we were informed that the idea behind the merger was to expand the steel production; to go for growth. I asked specifically of Mr John Bryant, the Chief Executive Officer, what would be the implications for R&D. This is because my experience in other industries is that when mergers of international companies come together, then there is always an opportunity to look at synergies and look at duplication. The response from Mr Bryant at that time was that the Wales Technology Centre was attached to the Wales production plant, and that the Teesside Technology Centre was attached to the Teesside production plant, but then there was Swinden Technology Centre which was not effectively attached to anything. I read between the lines that this might mean that this could be under some threat in the future. I was quite surprised that there was a complete reversal of what had previously been the policy of the company, to concentrate the technology within the businesses. A complete reversal in that now there was supposedly going to be one technology centre based in Sheffield, which is not attached to any steel works. So I was somewhat disappointed, to say the least.

50. Just straying slightly from the remit of this Committee, when you talk about synergies and duplication and the opportunity for increased efficiency, not referring specifically to R&D, have you found that there have been synergies in the production process, or sales and marketing, or in financial administration? Has that happened in those areas?

(*Mr Hopwood*) Yes. I am sure the Committee will be aware that 4,500 jobs have been lost in the United Kingdom the last year.

51. In your written submission to the Committee—for which we thank you very much indeed; you are one of the few people who gave us written evidence and we are grateful to you for that—you said: "it is entirely possible that if the merger had not taken place ... British Steel would have been forced into a retrenchment programme." From the information you have now and the experience that you have had since the merger, do you think that would have happened? Do you think, therefore, that the merger might have saved research and development jobs in this country?

(*Mr Hopwood*) I am not sure that it would have saved. I think the opposite might be the case. It is certainly true that the profitable side of the business is the Dutch side, the IJmuiden site, because they are in Euroland. The company is making losses, at the moment, across the whole business.

52. But profit is there?

(*Mr Hopwood*) They are still making some profit there. Not as much as they would like because there are some inefficiencies that they are trying to get out of the system, but certainly that is effectively propping up the rest of the business in that they are making massive losses over here. The domestic market is shrinking slightly and they are not making any money on exports to Europe because of the strength of the pound against the euro. If we did not have the IJmuiden element, then clearly there would have been massive pressure on British Steel Limited to do something about adjusting its production to meet the demand.

Dr Jones

53. In their evidence to the Committee, Corus have quoted the Boston Consulting Group who claim that a merger like theirs generally results in an overlap of between 20 and 40 per cent in R&D. Corus say that in this case there was a 20 to 25 per cent overlap. Would you agree, therefore, that it is inevitable that jobs and facilities must be shed due to duplication?

(*Mr Hopwood*) It was my expectation that this would happen. That is why I asked the question of Mr Bryant. It is just that I think that what has happened since is that the reduction in the number of employees and the promises of reinvestment from the synergies does not appear to be coming to fruition. Also, the fact that some of the jobs which were supposed to go into the works, transferred into various plants, that again has been reduced from 150 already to 100. We expect that to be reduced even further. So we think it is much worse than was originally suggested.

54. What were the promises of investment?

[Dr Jones *Cont*]

(*Mr Hopwood*) What was suggested was that from the synergies there would be a certain amount of money available for certain projects—I am not a technical person—but the kind of blue sky stuff. Perhaps Chris could help you with that when I have finished. So that money was suggested and it would be reinvested to keep more jobs to do scientific work, but it does not appear that a great deal of money has been generated. Therefore, those jobs are not going to materialise.

(*Mr Treadgold*) The statements that were made, particularly by John Bryant at the time of the merger relating to the overlap that would be found within the R&D organisation, is that the effort, which would be released by eliminating the duplication, would be reinvested. They had the concept of what they call "break-through" projects. These were projects that would be intended—I think this is quoting Mr Bryant—"to kick the company forward", maybe into new market areas that we have not been in before. So there was a clear intention stated at the time of the merger that synergies found in R&D would be reinvested but unfortunately, as things have transpired, that really has not happened.

55. Do you think that if that promised investment had taken place, the jobs that have been lost could have been avoided?

(*Mr Treadgold*) In the R&D organisation this would certainly have gone some considerable way to reducing the numbers of jobs that were lost, yes.

56. You think the proposed projects would have actually been a benefit in the long term to the company?

(*Mr Treadgold*) That certainly was the intention at the time of the merger: that we would have, as I say, these break-through projects aimed at pushing business into maybe new market areas, and technology would have a very big input in doing just that.

(*Mr Hopwood*) The problem with this is whether those jobs would be created because Dr Edington, when he gave evidence last week, suggested that people were not just let go willy-nilly but the company were careful to keep whatever it needed. But the fact is that everyone who volunteered went. We are in a situation now where in South Wales those people who will not relocate will be granted redundancy, no doubt about it. Those people in Teesside who will not relocate to Sheffield will be granted redundancy, no doubt about it. All those jobs are lost. So, effectively, if there are any jobs generated by these reinvestments, they will have to get some people from another planet to fulfil them.

Dr Williams

57. We are told by Corus that the amount of money invested in research and development is about £85 million a year in a turnover of £8 billion, which works out at about 0.9 per cent. Compared to most manufacturing industry that is fairly low. Why is it so low? Is the steel industry peculiar in having a high turnover industry with relatively low R&D?

(*Mr Treadgold*) I think the sort of level that Corus is spending, the .8, .9 per cent of turnover, is comparable with steel industries in the rest of Europe, maybe in the rest of the world. There was a difference in the amount that Hoogovens spent compared with British Steel. Hoogovens spent slightly more. There was certainly a hope, if not an expectation, when British Steel and Hoogovens merged, that maybe Corus would move more towards the Hoogovens level of spend rather than staying with what British Steel spent. Again, that has not proved to be the case, and we are still at the .8, .9 per cent.

58. When Corus speak about other steel companies in Europe, Japan, United States, is that .9 per cent about the level of things or are we way behind Japan and the United States and third world countries?

(*Mr Treadgold*) I do not think we are way behind on average. I am not expert on the Japanese steel industry. You might find examples in Japan where they spend somewhat more. You might find examples where they spend perhaps a little bit less. That sort of level is not untypical for the steel industry.

59. Could I ask one very general question about Corus. It follows from your earlier comments, Mr Hopwood, that in Britain there is the problem of the high pound. It is almost a 50/50 or 60/40 merger. The Holland part is profitable. It should be incredibly profitable. It is a high pound but ideally the fundamental problem is the low Euro. In terms of exports to third countries, be it to the States or South East Asia or wherever, the Dutch part of the operation should be superlatively placed on the world markets. You would have thought that one carries the other, that the two should absolutely complement each other in terms of sharing the risk, should they not?

(*Mr Hopwood*) If you think about it, Hoogovens is only a third of the size of the partnership and British Steel is two-thirds. There have been some production problems in the Netherlands. I do know that the company is trying very hard to drive those problems out of the way. I do not believe the Board is happy with the output or the profitability of the IJmuiden site but I am told that it is beginning to come right. But, in a way, that success is also quite worrying for Corus (UK) because we have got the domestic market, particularly sections at Teesside and Scunthorpe, and then the flat products, the strip products, which are nearly all exported into Europe. The Board has made it perfectly clear that they are not going to export and not make a profit.

60. Concerning the job losses that are taking place in Britain—you said that because of other synergies in certain areas you would expect job losses, as it were—is the total production and total market share for Corus as a company fairly level, or has that been cut at the same time as redundancies?

(*Mr Hopwood*) I believe they are losing market share but that is to be expected, given that they cannot compete.

61. The United Kingdom end of it, but the Dutch end of it should be gaining market share, should it not?

(*Mr Hopwood*) I cannot speak for what is happening in the Netherlands, at the moment. I have not detailed information on this, I am sorry.

Chairman

62. Just as a matter of interest on that point, does your Union cover the Netherlands side of Corus?
(*Mr Hopwood*) No.

63. Right, if it does not, then do you have a close liaison with a union that does?
(*Mr Hopwood*) We have a relationship with them. It is the FNV Union over there. To some extent we are jealous of some of their agreements in that they have a five-year guarantee of no redundancies, which obviously we do not have here. It seems it is much easier to make people redundant within the United Kingdom than it is abroad.

Dr Gibson

64. A closed shop.
(*Mr Hopwood*) They have much lower density in the Netherlands than we have here, much lower. Their membership is something like 40, 50 per cent. We are round about 80-odd per cent, yet we do not appear to be able to deliver very much protection as far as our members are concerned.

Dr Williams

65. Following on from your reply to the Chairman, it is folk lore in South Wales that whenever any companies closes, it is cheaper to make people redundant in Britain than in mainland Europe. That is very much your thinking, is it not?
(*Mr Hopwood*) I am not sure, Dr Williams, whether it is cheaper but it certainly appears to be easier.

Dr Turner

66. We have talked about the width. Now let us turn to the quality. What do you think has been the effect on the quality of research at Corus as a result of the merger, and how do you think the input from Hoogovens has affected the R&D capability of Corus?
(*Mr Hopwood*) My view would be that the morale of the people in R&D in the United Kingdom is at absolute rock bottom. That must have an effect, in my view, on the way that people perform. I do think what people cannot understand is the complete reversal from the way British Steel said they wanted to go in 1995; when they said they wanted to lock in the technology departments into the businesses, and even said that a separate organisation within the company for technology would be the worst thing that they could possibly do; yet that is exactly what they are doing. People cannot understand exactly what is happening here. I do think it is having an effect on the way people are operating. It has got to be detrimental.
(*Mr Jones*) On behalf of the Welsh Technology Centre, I would just like to say that morale is really at rock bottom there and it does have an effect on productivity. The Dutch approach is a different way of working. A lot of time is spent accounting for time but there is a real fear for the future and that is affecting people's outlook a lot.

67. Your memorandum to the Committee states that: "merging with an organisation whose goal appears to favour longer term objectives should be beneficial in achieving this change in emphasis." The merger has been in place for a year. Do you think there is any sign that Corus has adopted a more long-term attitude to R&D than was previously prevalent in British Steel?
(*Mr Hopwood*) I would say no. Traditionally, in the United Kingdom, the customer has been the production plants. They have always been very, very careful about the amount of money they wanted to spend on R&D. Recently in Teesside, for instance, they have suggested that they are only prepared to support R&D until 2001. They are not prepared to spend more than something like £200,000. It has always been difficult and I certainly do not see the introduction of a third party, Dutch colleagues, as changing that very much; although it has got to be said that the new Director, Hans de Wit, does appear to be very committed to technology and is certainly talking a good fight.

68. To cite one specific example, there is a crisis in the British Rail industry at the moment. One of the factors in that crisis which seems to be emerging is the actual properties of the steel used and design of rails. Have you got the R&D capacity to tackle a problem like that effectively and quickly?
(*Mr Treadgold*) I believe the answer to that is yes. We do have a group of people based in our technology centre in Rotherham, which is somewhat confusingly called Swinden Technology Centre, who work on the properties of rails. They work very closely with our manufacturing plant up in Workington, who supply Railtrack. I am led to believe that there is very close liaison between Railtrack and Workington with input from technology helping that. So, yes, I believe we have the capability of dealing with Railtrack's problems.

69. Good. Dr Edington told us that he felt that R&D at Corus was becoming far more embedded in the company's decision process. This was allowing the company to be more consumer-led rather than process-led. Have you seen any evidence of this? Do you think such a change would be helpful to the company's long-term future?
(*Mr Treadgold*) No, I do not see any evidence of that. I think that having R&D on a table where the decisions are taken is beneficial—or would be beneficial. It has happened in the past. We have had full Board members, like Dr Edington himself, who was on the full Board of British Steel. That is not the case now and I find it difficult to understand the comments that Dr Edington is making.
Chairman: Dr Kumar, you have arrived just in the nick of time.

Dr Kumar

70. Thank you, Chairman. My apologies to you and your colleagues. I was detained by the Prime Minister, if I can say that, in talking about steel matters. Mr Hopwood, just to follow on from the question that Dr Turner has asked. Regarding Dr Edington's comments last week, when I asked him about the downgrading of research and not having an Executive Director of Technology, when I asked

[**Dr Kumar** *Cont*]
him if he was deserting a sinking ship to that he protested very loudly—in fact, too loudly for my liking—but he thought that was not happening and that he would be staying to sort people out. If you recall, he made those comments. Do you believe him when he says that?

(*Mr Hopwood*) Frankly, I do not, because looking at a meeting which took place with Dr Edington on 13 October 1995, to a question that was put to him (these are the company's notes) about moving technical staff into BSSP, which is the strip products business in South Wales, did this mean that they were more likely to be shed at the next downturn? He said then that centralised R&D with walls around it would be the worst situation in any future downturn compared to technology staff embedded within the businesses. Yet that is exactly what they are doing. They are moving into a centralised technology centre in Sheffield and closing all those that are in the businesses. They are also decreasing the number of people who will be transferred into those businesses. Originally it was 150. It is already only 100. We are expecting that to shrink again.

71. So you would agree with me that Corus is actually downgrading research, as it was seen in the previous British Steel environment. I hope you agree with me because I have just conveyed that message to the Prime Minister very loudly: that this was the future that we were looking at. Do you agree with that? I hope you agree with that.

(*Mr Hopwood*) Yes. I challenge Dr Edington, if he really does care, to stay and look after the people who put their loyalty in him.

Chairman

72. Can we be clear on one thing. The centre at Sheffield, to which Mr Hopwood has just referred, is that based on, or close to, a plant in Sheffield?

(*Mr Hopwood*) No. I think it is on the old Orgreave site.

(*Mr Treadgold*) There is still some small capacity in the Sheffield area.

73. But not major?

(*Mr Treadgold*) Not major, no.

Chairman: Thank you very much.

Dr Kumar

74. So ideally you would like Mr Hans de Wit to be on the Board or given the same sort of respect that his predecessor had as a Director of Research?

(*Mr Hopwood*) I think that would send a very strong signal to the people working in technology R&D, that the company are 100 per cent committed to R&D if they put someone of that calibre on to the Board.

75. That is the feeling of the workforce, of the technologists, scientists and engineers that you know?

(*Mr Hopwood*) Ask my colleagues.

(*Mr Jones*) The point that you touched on about the relocation of the new building in Sheffield. This is in contrast to IJmuiden where they work right next to the firm. We feel that most of the work we did previously was customer oriented, where the customers were the works, and we did a lot of developing processes techniques and so forth. This affinity with R&D and business units is going to be lost. We feel this could be a precursor to losing a lot of production in this country and a lot of it going out to mainland Europe.

76. The merger of the three research centres into one—what is your feeling? You recently submitted in your memorandum that it was not viable from the start. Tell us why, because obviously you feel very strongly about this issue.

(*Mr Hopwood*) What I cannot understand is that if it was right in 1995, with all the recent major changes is not the R&D business in the process of being dismantled? The answer to that question from Dr Edington was for British Steel to get as close as possible to its customers. Low cost was important but customers wanted to see clear commitment to technology throughout the company, not just in a separate organisation within the company. This is a separate organisation. He also said that companies with few technical staff in their businesses find that problems are poorly defined and are those that the business itself should have solved. So it seems to me that the remoteness of Sheffield will not help the customers. The customers are the strip business, the sections business. There is a distance between the two now.

Dr Kumar: The Prime Minister has been regularly emphasising a knowledge based economy; he wants technologists and scientists.

Chairman: Dr Kumar, we have a division. Before you go further in your question it might be an idea if you stopped now. I am going to have to suspend the Committee for ten minutes and we will be back as soon as we can. You will understand the process we have to go through.

The Committee suspended from 16.45 pm to 16.55 pm for a division in the House. Chairman: We will resume the Committee. Dr Kumar was about to ask a question.

Dr Kumar

77. I was saying that the Government is trying to create a knowledge based economy—trying to encourage technologists, scientists and technology. Given what Corus has been doing, do you see that we will have a loss of experience in scientifically skilled staff through early retirement? What sort of message does this send to our young people, to the workforce as a whole, and to our country, that really skilled technologists and scientists are not really needed because it appears that many of them are going to be put on the scrap heap.

(*Mr Hopwood*) It was quite ironic that Mr Bryant spoke about the quality of physics teachers and the lack of them. The spin-off to this might be that my colleague, Peter Jones, is going to become a physics teacher as a result of not having a job in Corus in South Wales. So there is a possibility that there might be spin-off in that direction. Seriously, I do think that Corus will find it more difficult now to recruit people. Technologists are not the highest paid in the United Kingdom and certainly the United Kingdom do not appear to give regard to its engineers and scientists. To expect those people also to be mobile—again, a

[Dr Kumar *Cont*]
statement made by Mr Bryant, that when there are jobs for people they are willing to move—well, people do not move out of the valleys of Wales. That is why they are there. They want to stay there. Also, the kinds of salaries that are paid to technologists are not high enough for them to be totally mobile. It is rather sad that these skills will be lost there. I think it will be detrimental to the company also.

78. What about those who are left behind, who have not been put on the scrap heap, those who are still working. What is their morale? Can you tell us how they feel, at this moment in time, the way they are being treated by Corus?

(*Mr Hopwood*) Peter is directly involved in this. As I said, he is a casualty, so perhaps it would be better for him to answer this one.

(*Mr Jones*) All I can say is that at the Welsh Technology Centre morale is desperately low at the moment. There is a feeling of not being wanted, to a large extent, largely by the way things have been conducted. Dr Edington did make a remark that things were carried out in a professional manner. That is not always the case. There have been a number of people who have just been given application forms after a number of years' service and told to fill them in, marking their experience and qualifications. One can ask the question, what happened to appraisals? The previous managers were not even consulted. It goes together to give one a feeling of it does not matter how hard one tries to perform. You are just moved around by top management.

79. Do you think the company is being honest with the workforce and unions like yourself in its restructuring of Corus R&D?

(*Mr Hopwood*) I think they have been reasonably honest but there is a subtext about what the company wants to do with Corus (UK) generally. If you wanted to read between the lines, you could read all sorts of things into the fact that they are closing down those technology centres in South Wales.

80. What do you think? Do you think they are being honest or not? I must press you on this question.

(*Mr Hopwood*) I have suggested to the company that we ought to think the unthinkable and have a debate about where the company is going and what happens if the problem stays. How long are they going to take losses? They are massively in debt now. Before the merger they were cash rich. Now they have a massive debt. I think it is something like 1.7 billion. I can only think what might happen but I would not want to be seen as a hearse chaser, (for want of a better expression), and I do not want to be one of gloom and doom. If things turn around, that the pound weakens or the euro strengthens, which is more likely, then this could be turned around. But at the moment it is looking pretty bad.

Dr Williams

81. Going back to the morale of the workers. In Port Talbot there are 200 in the R&D division, similar numbers in the others, but a new facility is to be built in Sheffield with a total of 450 employees. How many out of the 200 at Port Talbot are thinking about, or will be, moving to Sheffield?

(*Mr Jones*) The number is not known yet. People obviously have to make some very hard decisions so the final figure is not known yet. I can tell you from the move that the department I was in, we were a section of 33 people. The section was moved out to Holland and only five out of the 33 went. I do not know if that can be used as a template.

82. What about Rotherham, which was not factory based or work-split based. Are the people in Rotherham, in a sense, more suited to Sheffield because of the easier geography, who are more likely to move from Rotherham?

(*Mr Hopwood*) To be honest, the unions, my Union in particular, pushed to avoid competitive interviews. This is because I thought that would make matters worse, so there will be some automatic selection for jobs. Quite clearly, those people who are already in Rotherham for any job that they can do, will simply step across the motorway into Sheffield. I do believe that it is unlikely that many people will move from Wales or from Teesside.

83. So out of the total of 450 jobs, you think a lot of those will be new appointments then?

(*Mr Hopwood*) They will need to find—I cannot be exact—around 130 or so. If everyone could do the job that is available in Sheffield in the new establishment, and if everyone moved from Swinden Technology, then they would still need to find 100-odd new jobs. Now I do not believe that those will be filled from people from Teesside or South Wales.

84. Do the workforce in Rotherham feel more positive about Sheffield than Middlesbrough and Port Talbot?

(*Mr Hopwood*) I do not believe they do feel very positive. You obviously have not seen the site in Rotherham. It is full of listed buildings, it has bowling greens, football pitches, everyone goes jogging at a lunch time. People are looking at that element as well. It is on the old Orgreave site, next to the airport, that they are moving to, so there is a little bit of that about it. I also do not think that people think this is the solution to British Steel's problems either.

Chairman: We will go back to Dr Kumar. I wish it to be known from the Chair that I am not unsympathetic to morale and social problems and so on but I do think that we should go back, as far as we can, to R&D.

Dr Kumar

85. When the restructuring of the technology centres was announced, what steps did Corus take? Comparing this country with what happened in Holland, did you get the same treatment here as they get in Holland? Would you outline the steps.

(*Mr Hopwood*) I have already touched on the fact that there is a pact, an industrial relations pact in the Netherlands, where people cannot be made

[Dr Kumar *Cont*]
redundant for five years. A five-year pact between the company and the unions. The numbers involved are very, very small.

86. No, I am not asking that. What I am asking is: what consultation did Corus make before its announcement that it was going to close certainly the three centres here? Did it just appear out of the blue one day or was there a warning initially? I am trying to draw a comparison between how things are done by Corus in this country and how they are done in Holland. I want procedures and comparisons really.

(*Mr Hopwood*) There appears to be much more openness in the Netherlands than there is in the United Kingdom. When asked straight questions they appear to get straight answers in the Netherlands and the dialogue is a very open one. What tends to happen here is that there is an announcement on the Friday that a plant is going to close on the following Monday—perhaps not on the Monday—but an announcement about redundancies is going to be made. One of the things that is, in a way, helpful is that this is a long-term redundancy situation, in that the new site is to be built and it is not until the end of next year that people will have to leave if they do not move to Sheffield. So there is a long opportunity for dialogue. However, the problem is that the unions do not appear to be in a situation where they can actually change the company's view before they make the decision or amend it very much, although we do get the impression that in the Netherlands there is an indication that perhaps it might be the case that they do listen.

Dr Kumar: How many hours' warning did you have that they were going to close down three centres in this country?

Chairman: Dr Kumar, can you return the session to R&D, please.

Dr Kumar: I am trying to research what warning of R&D closures was given to the workforce. I am only trying to ascertain that.

Chairman

87. Right. However, I think you might be missing the opportunity of asking more pertinent questions, when we have to move on in a moment or two.

(*Mr Hopwood*) The announcement which was made put a spin on the fact that Corus were opening up a high-tech centre in Sheffield. The actual fact that 280-odd jobs were going to disappear was played down.

(*Mr Jones*) Could I say it did come as a complete shock. We were just pulled into a hall and it came out of the blue, so it was a total shock. For the tin plate part of the business we were given four months' notice approximately before we had to agree to relocate to IJmuiden.

Sir Paddy Ashdown

88. Chairman, I apologise for not having been here throughout, so please forgive me if this has been covered before. It really is depressing to listen to all of this. It is not my job to put words in our witnesses' mouths, but would I be wrong in concluding that it is your view that the reassurances we received in respect of R&D from Corus when they gave evidence, is little more than public relations palliatives designed to cover a situation rather than identify the facts as you see them?

(*Mr Hopwood*) I wish I could say that was not the case but I do believe you are absolutely right. The company has a PR job to do and that is what they are doing. I would like to believe that the new centre in Sheffield will be a massive success but I have grave doubts.

Dr Gibson

89. They also painted a picture—I wonder if you would agree with this—of bright young things wanting to be flexible and mobile in this brave new world of ours, in high-tech and so on. That does happen in some industries. Why should it not happen in your industry? Why should that not be happening or is that just part of the PR job?

(*Mr Hopwood*) I think it could well happen, if it really is a state of the art centre and there are connections with universities and everything else. The problem is what happens in the meantime when we are losing all that knowledge base, all those skills? That cannot be replaced overnight. You cannot replace people with 20 or 30 years' experience with graduates straight from university. It is impossible. It may be that the centre will be a massive success in ten or 15 years' time. That is, if Corus still exists in ten or 15 years' time. It might be a success then but our worry is that, to some extent, the company is being put at risk in the way they are dealing with this particular—

90. But you do not deny that they are taking in younger people. Are they research and development-literate in those fields or are they versed in cooking and spin doctoring?

(*Mr Hopwood*) As I understand it, at present the only real entry—there are other routes—but the main entry into Corus (UK) is through a university degree. You need a degree to get into the company now, whereas at one time you would get through via the apprentice route or other routes. Of course these people do not always stick. They are transient, whereas sometimes the home grown variety, people who have come through apprenticeships and do a degree later, have a loyalty to the company and they do stick. It is true that the company have been taking on something like 200 graduates per year, you have to applaud that, but they are not all in R&D.

91. How many are in R&D?

(*Mr Hopwood*) I do not know.

92. What sorts of degrees do they have? Social sciences or what?

(*Mr Treadgold*) They are still taking on graduates in the R&D business. I really could not tell you what number.

93. That is rather important, is it not? If you are going to rubbish the arguments it might be helpful to quantitate a little. I do not want to be aggressive; I am trying to be helpful, so that we can get a full picture of what is happening now.

(*Mr Treadgold*) R&D is still able to recruit. We are still offering jobs that graduates clearly find attractive. We take graduates on in scientific and

[**Dr Gibson** *Cont*]
engineering disciplines, covering a wide spectrum of the degrees that are on offer in the United Kingdom universities. I think we do a good job in training those graduates. We have accredited training systems with most of the engineering institutions, and graduate intake find that attractive. So we do still have success in recruiting new graduates. We sponsor graduates through universities as well. That is a good way of doing it. The problems then arise in retention of graduates. I suspect that Corus might not be unusual in that respect. I think graduates are a more mobile sector of the population than anybody else. So we take graduates. We train them, we get them maybe up to the point where they can start doing a useful job, but we are not very good at keeping them beyond that. We do keep some. But what we have singularly failed to do is to take graduates that other industries have trained, because they are losing people as well, so there is a movement of trained graduates and the company has never really succeeded in plugging into that. I do not think that what is happening at the moment, in terms of the merger and the demanning and the well known problems of profitability, I do not think that helps us in recruiting people at that sort of level, the people who are starting to become useful. So we do have a problem in retaining and buying in partially trained graduates.

(*Mr Jones*) There is a scheme run at WTC, an engineering doctorate scheme. This is run in conjunction with Swansea University and has been quite successful. It is proposed that it is going to keep going but, of course, you have to ask yourself where will these people get guidance and back-up if many WTC personnel are leaving?

Dr Turner

94. The bulk of the job losses that we have been told about appear to be borne by United Kingdom centres rather than at the IJmuiden Centre in the Netherlands. Why do you think this is happening?

(*Mr Hopwood*) It does appear that all the process engineering and technologies are moving to IJmuiden, so many of the jobs have been exported effectively to the Netherlands. Some people will move from the United Kingdom to those, but if they will not move, then again they will have to be recruited over there. It was initially suggested that they might lose about 90, if I recall. We do not believe they will lose 90. We believe that those jobs will be absorbed within that IJmuiden site.

95. We have heard a rather depressing scenario of problems which have directly affected your industry, although it is clearly not necessarily limited to your industry. What do you think are the conditions in the United Kingdom that discourage R&D in engineering, and do you think there is anything that Government can do to improve matters?

(*Mr Hopwood*) If the Government was to raise the status of engineering and technologists, clearly that would have an impact. In Germany, for instance, engineers and the like are regarded as very important people. Perhaps it is because of the massive downturn in manufacturing that people do not see that they need to go into R&D. I also look after some of the responsibilities in the AEEU for pharmaceuticals and chemicals. It seems like America is the mecca for R&D, yet jobs are even being lost in the UK in pharmaceuticals.

96. The treatment of engineers as compared between Britain and Germany is a long-standing cultural problem. How do you think the Government can actually get involved and help?

(*Mr Hopwood*) The statement by the Prime Minister before the election was the priority was "education, education, education", and education means teachers being regarded as very important in society. Without good teachers then we cannot prosper, ignorance causes—I am sorry, I am getting on my soapbox—all sorts of problems, and again with technologists and engineers we should give them the respect they are entitled to.

Chairman

97. Thank you very much. I think we have more or less come to the end, but before I sign off and thank you, could I just put one point to you? If you feel I am giving you too short a notice of this point and you prefer to write to the Committee, I understand that, but we have heard a pretty depressing picture this afternoon; we did not hear a very bright one when we were hearing it from the management, who you would expect to put the best spin on it, and now we are hearing it from the union side we are probably hearing it as it is and it is even less encouraging; but during the course of the evidence you have suggested that there probably was a need for British Steel to take some action before it went over the top of the cliff and lost everything and therefore there was a need for some merger or some restructuring and you were realistic enough to agree with that. So taking that as a given, how would you have liked to have seen this restructuring taking place so it would have been better done as far as all your members were concerned and your R&D members in particular?

(*Mr Hopwood*) The uncertainty is the big problem. People cannot be confident within a company when at one time they say the strategy has to be to have technology within the businesses and then they do a complete reversal a few years later. When the Board director, Dr Edington, says that technology has to be linked to the businesses and a single unit will not be a success but then a few years later that is exactly what they do, how can that be building confidence?

98. So you are saying that when the chips were down principles went out of the window, or words to that effect?

(*Mr Hopwood*) Yes, that will do nicely.

99. Thank you very much indeed. If there is anything you think about on the plane back home or tomorrow morning when you are having your cornflakes that you wish you had told us which you have not, please feel free, any of you, to write to us and add those comments because it will be a week or two before we do our report and those comments can be incorporated as written evidence to this Committee. We are very grateful to you for finding the time to come and be with us; we are sorry we had a ten minute delay while divisions took place but that is part of the hazards of this place. You have given very clear evidence to us in writing and now in person

[Chairman *Cont*]
this afternoon and we are very grateful to you, Mr Hopwood and, of course, Mr Treadgold and Mr Jones. Mr Jones, while we are saddened to learn you will have to have a new career, you are going into a very important one. Mr Hopwood said that teaching is one of the most important things and before I get on his bandwagon, he also said that banishment of ignorance is one of the best things we can do in society and we all know that physics teachers are in the shortest possible supply and for the rest of your career you will be doing something which is extremely worthwhile, even though you have been rather forced into it, possibly, from circumstances you would prefer not to have happened, but we wish you well. We do thank you all very much indeed for your help this afternoon.

(*Mr Hopwood*) Thank you.

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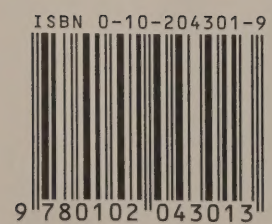

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